opportunity for reform

a response by the
national council of welfare
to the consultation paper
on child and elderly benefits

march 1985

Canada

OPPORTUNITY FOR REFORM

A Response to the Consultation Paper
on Child and Elderly Benefits

March 1985

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TABLE OF CONTENTS

THE CHILD BENEFITS SYSTEM

Why does the federal government subsidize families with children? The answer to this basic question helps explain what is wrong with the child benefits system and right about the Consultation Paper issued by the Minister of National Health and Welfare.

A Brief History of Child Benefits

Canada's child benefits system is as old as - indeed, was originated by - its income tax system. In 1918 the federal government introduced the **children's tax exemption** which allowed parents to deduct a specified amount ($200 per child when the program began) from their taxable income for each child under 16 at income tax time. The purpose of this first child benefit program was to recognize the fact that taxpaying parents bear a heavier financial burden than taxpayers who do not support children.

The end of the next world war brought our best-known child benefit, the **family allowance**. The founders of the family allowance intended the program to serve as a tangible recognition by all Canadians of the contribution that all parents make to society in raising future citizens and members of the labor force. Just as the children's tax exemption had for decades taken into account the cost and value of child-rearing by easing the tax burden of taxpayers who support children, so also was the family allowance intended to recognize the important role that parents play in our society. Canada was comparatively late in the game in this regard; some 30 nations already provided some form of child benefit when our family allowance program was legislated in 1944.

The family allowance has special significance for women, and for this reason always has been staunchly defended by women's groups. Family allowances help serve as society's recognition of the child-rearing work done by women.

The monthly family allowance cheque is paid directly to the mother on behalf of her children. There are cases, even in affluent families, where women have no independent income of their own and where husbands refuse to provide adequately for their wife and children. As long as matrimonial property laws continue to deny married women an equitable and accessible share of their families' financial resources, the family allowance remains the only source of income to which all mothers are entitled as a right and which they personally own and control.

An important objective of the family allowance that is often forgotten today is its role in supplementing the incomes of poor families. The problem with the children's tax exemption is that it gives no help to the thousands of families whose incomes are so low that they are not subject to income tax.

Canadian policymakers in the 1940's were influenced by evidence from British social surveys which found that large families faced a high risk of poverty; breadwinners earning low or modest earnings simply could not provide an adequate income for themselves, a non-earning spouse and several children. Family allowances would help compensate for the fact that the wage system does not make adjustment for the extra financial responsibility borne by earners with dependent children. By helping lower-income parents better provide for their families, the family allowance would ensure a greater chance of equality of opportunity for their children.

Family allowances also play an economic role that has largely been ignored during the current debate on social programs. One of the reasons the family allowance was legislated in the first place was to stimulate consumer spending and so help prevent a downturn when the wartime economy returned to peacetime production. No matter how the family allowance cheque is spent - conventional wisdom says that low and middle-income families devote theirs to necessities, while affluent mothers often regard theirs as pocket money - the program pumps cash into the economy, which buys goods and services and, in turn, helps create and sustain jobs.

The newest child benefit, the refundable **child tax credit**, was created in 1978. Like the children's tax exemption, the child tax credit is delivered through the income tax system. As we explain later, however, the children's tax exemption helps high-income families most, whereas the child tax credit was designed to benefit low and modest-income families most and to exclude those who are well-off.

Who Should Get What?

Our quick sketch of the development of the child benefits system shows that it has three main purposes:

1. to recognize the contribution of all parents in raising the next generation.
2. to help lower-income parents provide for their children's needs.
3. to help stimulate the economy.

What kind of child benefits system would be required to meet these objectives? One that is universal in reach and progressive in impact.

Family benefits must have a universal foundation. All families, regardless of their economic circumstances, should receive some payment in recognition of their child-rearing contribution.

However the second and third objectives call for a progressive child benefits system which gears the amount of assistance to a family's financial needs. It makes both social and fiscal sense to pay higher benefits to low and modest-income families. They most need government financial help in raising their children and are most likely to regularly spend their child benefit on necessary goods and services which, in turn, help fuel the economy.

Who Gets What?

The total bill for family allowances, the child tax credit and the children's tax exemption now comes to over $4 billion. How well does this costly system work?

To keep the discussion as short as possible, we have placed detailed and comprehensive information on the costs and characteristics of child benefit programs in the appendices of this report. Appendix A offers a glossary of key terms. Appendix B provides a guide to the family allowance, child tax credit and children's tax exemption (payments, costs, eligibility, application procedures and beneficiaries), and Appendix D analyzes trends in child benefit spending over the years. Appendix C explains two other benefits for families with children - the equivalent to married exemption for single parents and the child care deduction for employed parents with child care expenses.

Table 1 summarizes the main features of the child benefits system.

Table 1

Federal Child Benefits,
Costs and Characteristics, 1985

Program	Cost ($billions)	Number of Families (millions)	Eligibility	Distribution of Benefits
family allowances	$1.810	3.6	universal	progressive
child tax credit	1.425	2.5	selective (excludes affluent)	progressive
child tax exemption	1.175	3.0	selective (excludes poor)	regressive
total child benefits	4.410			

The **family allowance** will pay out $2.45 billion to 3.6 million families on behalf of 6.6 million children in 1985. However Ottawa will recover $460 million of this money through income taxes paid on family allowances, so its net (i.e., after-tax) bill is $1.99 billion. The provinces gain another $180 million in provincial income taxes levied on family allowances. The total net cost to government, then, is $1.81 billion.

The family allowance goes to all households with dependent children under 18, regardless of income (i.e., it is a **universal** benefit). However the program pays lower-income families most and upper-income families least (because benefits are taxable), which means that it distributes its benefits in a **progressive** manner.

The other two child benefits are both delivered through the income tax system, but work in opposite directions. The **child tax credit**, which will cost the federal government $1.425 billion for the 1985 taxation year, is **selective** in application (it helps low and middle-income families and excludes the affluent) and **progressive** in its distribution of benefits. The $1.175 billion **children's tax exemption** excludes the poorest families (it is **selective**) and delivers its largest benefits to families with high incomes (it is **regressive**).

Table 2 shows what a couple with two children receives from the child benefits system in 1985. We assume that both spouses have earnings and that the family claims a child care expenses deduction for each child (Appendix C explains how this child benefit operates).[2] It is important to note that, though the exact amounts will vary, the overall distribution of child benefits according to family earnings is the same for one-earner couples, single-parent families and families with fewer or more children than illustrated in Table 2. (Table 34 in Appendix F looks at one-earner couples and Table 35 at single parents).

Table 2

Child Benefits, Two-Earner Couple With Two Children, by Family Earnings, 1985

Family Earnings	Net Family Allowances	Child Tax Credit	Child Tax Exemption	Total Child Benefits
$10,000 or less	$750	$734	$ 0	$1,484
15,000	560	734	356	1,650
20,000	550	734	378	1,662
25,000	539	734	399	1,672
30,000	539	734	407	1,680
33,000*	528	734	420	1,682
40,000	528	414	469	1,411
50,000	482	0	525	1,007
60,000	472	0	525	997
70,000	472	0	601	1,073
80,000 or more	417	0	630	1,047

* earnings plus child benefits approximate median income for family with two children ($35,000).

The sum total of the three child benefit programs makes neither fiscal nor social sense. The progressive impact of family allowances and the refundable child tax credit is cancelled out by the help-the-rich-most effect of the children's tax exemption.

What a family gets from the child benefits system bears no logical or just relationship to its financial need. A family at the mid-point of the

income ladder receives a larger child benefit than a poor family. A poor family does not get all that much more than a rich family.

A family with $10,000 in earnings receives $1,484 from the family allowance and child tax credit and nothing from the children's tax exemption; federal child benefits raise its total income to $11,484, which is $9,337 below the poverty line for a family of four living in a large city. A middle-income family earning $33,000 (three times as much as the low-income family) receives $198 more in child benefits, bringing its total income to $34,682, which is close to the estimated median income of $35,000 for a family with two children.

In our example, families earning $50,000 or more do not qualify for the child tax credit. As Table 2 demonstrates, they get more of their child benefit from the regressive children's tax exemption than from the progressive family allowance. An affluent family earning $80,000 or more gets $630 from the child tax exemption - 60 percent of its total child benefit.

Why should a family earning $80,000 be subsidized to the tune of $1,047? The poorest families shown on Table 2 earn one-eighth of what the well-off families make, yet receive only $437 more a year in child benefits than those at the top of the income ladder. Families with incomes over $50,000 will end up with about $700 million in child benefits after tax in 1985 (16 percent of total net benefits), more than half of which comes from the child tax exemption.

What's wrong with Canada's child benefits system is not that it helps upper-income families: The problem is that it pays them too much. Equity, not universality, is the issue and the culprit is the children's tax exemption, not the family allowance.

The Tax Side of the Spending Coin

The children's tax exemption is but one of a number of government programs that are delivered through the corporate and personal income tax systems. They are a costly and largely hidden form of public spending that favors upper-income taxpayers most and gives poor Canadians least.

The personal and corporate income tax systems contain a wide variety of exemptions, deductions, credits, exclusions and preferential tax rates which reduce the amount of taxes owed by individuals and corporations. These 'tax expenditures', as they are called, result in enormous revenue losses for the federal and provincial governments.

Statistics are few and far between, but we know from a Department of Finance study that personal tax expenditures amounted to $13.8 billion in federal tax losses during the 1979 taxation year[3] - $1.5 billion more than the federal deficit at the time. Add in another $6 billion or so in provincial tax losses due to tax breaks, and the total bill in 1979 came to approximately $20 billion. Corporate tax expenditure estimates were not included, but certainly they would add billions more to the tax expenditure budget.

In 1979 the National Council of Welfare released a report which showed that tax spending was increasing faster than direct spending.[4] We found, for example, that government spending on the children's tax exemption increased by 20 percent between 1974 and 1976 - more than double the increase in family allowance payments. The rise in spending on the age exemption and pension income deduction outpaced the increase in spending on Old Age Security programs by more than two to one.

There is every reason to believe that tax spending has increased substantially since the 1979 taxation year and is a major contributor to the mounting deficit. The Social Policy Reform Group, a working group of Canada's major national social policy and women's organizations, estimates that tax expenditures now cost the federal government in excess of $30 billion a year in lost revenue. The Economic Council of Canada recently identified the growth of tax expenditures as a factor in the sizable decline of government revenue from personal and corporate income taxes since the mid-'seventies.[5]

A tax expenditure such as the deduction for contributions to Registered Home Ownership Savings Plans (RHOSPs) is every bit as much a

government program as a direct transfer payment from Old Age Security or the family allowance. A benefit is a benefit is a benefit, whether it comes to its recipient as a cheque or as a reduced income tax bill. And a dollar not collected through the income tax system costs government the same as a dollar paid out through a direct spending program.

However tax expenditures differ from direct expenditures in other important respects. For one thing, they are not subject to the same scrutiny by Parliament and the public as are direct spending programs. Part of the problem in evaluating tax expenditures is the lack of up-to-date information on their costs, beneficiaries and effects. Partial estimates of the cost of personal and corporate tax expenditures have been published only twice - for the 1979 and 1980 taxation years. The Auditor General of Canada highlighted the problem in his most recent report to the House of Commons:

> MPs have increasingly brought their scrutiny to bear on the direct expenditures of Government and have made it more accountable. But all the while, beneath the surface of any accountability régime, programs fuelled by tax expenditures have expanded, their real costs unquantified, their total effect a mystery. And these tax expenditures have an enormous impact on our nation's economy.[6]

Although the federal government does not regularly publish estimates of the cost of its tax spending, we do know that tax expenditures mainly benefit the well-to-do. The previous discussion showed this to be the case with the children's tax exemption and contrasted it to the family allowance and child tax credit programs which benefit poor families most.

Table 3 illustrates who gets what from another familiar tax expenditure, the deduction for contributions to Registered Retirement Savings Plans (RRSPs). This provision permits an employee who belongs to a private

pension plan but who has contributed less than $3,500 to put some or all of the difference into a special type of retirement savings account and to claim this amount as a deduction from taxable income. The part of the difference that can be sheltered from tax is limited by a person's earnings: RRSP contributions added to contributions to a private pension plan cannot exceed $3,500 or 20 percent of earned income. Persons who do not belong to a private pension plan - including the self-employed - may contribute a full 20 percent of their earnings to an RRSP up to an annual limit of $5,500.

Table 3

Distribution of RRSP Tax Deduction Claimants and Benefits, 1982 Taxation Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$173	1.0%	4.3%	0.23
10,000 - 20,000	393	11.5	22.1	0.52
20,000 - 30,000	614	24.9	30.7	0.81
30,000 - 40,000	811	22.8	21.2	1.08
40,000 - 50,000	1,060	15.1	10.7	1.41
50,000 and over	1,690	24.7	11.0	2.25
Total	755	100.0	100.0	

Taxfilers with incomes below $10,000 accounted for only 4.3 percent of persons claiming this tax deduction and got an even smaller share - 1.0 percent - of total benefits. Their average tax saving was only $173 - far below the overall average of $755.[7]

The higher the income group, the larger the average benefit from the deduction for contributions to an RRSP. Taxfilers in the top income category ($50,000 or more) who claimed this tax deduction in 1982 averaged $1,690 in tax savings - more than twice the overall average benefit of $755 and ten times the average benefit for those in the lowest income group.

The other striking fact is the large share of total tax savings from the RRSP deduction enjoyed by upper-income taxpayers. Those with incomes over $30,000 get 63 percent of the benefits. Taxfilers in the highest income group ($50,000 and more) represent only 12 percent of RRSP contributors, yet take home 25 percent of the tax savings.

The last column in Table 3 gives what we term an 'inequality index'. This gives the ratio of an income group's share of benefits to its share of taxfilers claiming the tax expenditure. A figure of 1.0 means that the income category gets a perfectly fair share of tax savings, in the sense that its share of benefit equals its share of claimants. A figure less than 1.0 means that an income group gets less than its fair share of benefits, while the opposite is the case if its inequality index exceeds 1.0.

Few low-income Canadians can afford to put money into an RRSP, so it is not surprising that only 4.3 percent of taxfilers with incomes below $10,000 took advantage of the tax deduction of RRSP contributions. However they received an even smaller share (1.0 percent) of total benefits, resulting in a very low inequality index of 0.23.

Taxfilers in the $10,000 to $30,000 income range also got less than their fair share of benefits from the RRSP tax deduction. Those with incomes between $30,000 and $40,000 received roughly the same proportion of tax savings as their share of all claimants, as indicated by their 1.08 inequality index.

The clear winners were affluent taxpayers with incomes of $40,000 or more. Their inequality index results (1.41 for the $40,000 to $50,000 group,

2.25 for the minority with incomes above $50,000) prove that they enjoy a disproportionately large share of the tax savings from the RRSP tax deduction.

Many Canadians would agree that the RRSP tax deduction's objective of encouraging people to save for their retirement is a worthwhile expenditure of public funds. The problem is the reverse-Robin Hood manner in which this tax expenditure delivers its benefits. The solution (as proposed in our report Pension Reform, May 1984) is to change the RRSP tax deduction into a credit which would benefit low and middle-income taxpayers most.

Appendix E looks at a number of other well-known personal income tax expenditures, including the age exemption; married exemption; child care deduction; interest, dividends and capital gains deduction; pension income deduction; deductions for contributions to the Canada and Quebec Pension Plans, registered pension plans and RRSPs; and the deduction for unemployment insurance premiums. The pattern is the same in each case: The higher a taxfiler's income, the greater the benefit.

Tax expenditures do not have to operate in such an inequitable manner. Exemptions and deductions can be replaced by tax credits, which provide equal tax savings for all taxpayers if the credit is a fixed amount. Or they can be changed into refundable tax credits which extend benefits to Canadians too poor to pay income taxes; the refundable child tax credit is a noteworthy example. Tax expenditures also can be replaced by direct spending programs. Finally, Parliament could decide that a particular tax expenditure serves no useful purpose and eliminate it altogether.

OPPORTUNITY FOR REFORM

Last November the Minister of Finance issued his first economic statement, A New Direction for Canada. The document identified the growing federal deficit as a key problem and announced a review of all federal expenditures - including social programs - as an essential step in developing a strategy to combat the deficit.

The economic statement sparked a furious debate in the House of Commons and the media on possible changes to social programs and cuts in social spending. The discussion centered mainly on the well-worn and emotional issue of universality, with critics arguing that the federal government can no longer afford to pay family allowances and old age pensions to upper-income Canadians. Some talked of eliminating or at least reducing benefits to upper-income parents and pensioners; others defended universality as the essential bedrock of Canada's social security system. Unfortunately the need to examine tax-delivered social programs such as the children's tax exemption, age exemption and pension income deduction - though raised in the Minister of Finance's economic statement - was overshadowed by a confused and confusing debate over the true meaning of universality.

The confusion was dispelled in January with the release of a Consultation Paper on Child and Elderly Benefits by the Minister of National Health and Welfare. Critics were quick to attack the paper as an 'assault on the middle class' and/or 'mere tinkering' with child benefits. Canada's major national women's and social policy groups, on the other hand, hailed the paper as a progressive step towards significant social reform.

Universality and the Deficit

The Consultation Paper is as important for what it rejects as what it endorses. First and foremost, it does not accept the view of some business

organizations and economists that social spending should be slashed in order to reduce the deficit. To the contrary, the government has decided that any savings that result from changes to programs for children and the elderly will be kept within the social policy sector and used to improve benefits for low-income Canadians.

The Consultation Paper also reaffirms the government's commitment to the universal foundation of Canada's income security system. All parents will continue to receive family allowances, and all pensioners their Old Age Security cheque.

The deficit-reduction and universality issues are closely linked. Those who urge an end to universal social programs base their case on the need to reduce federal spending. They either reject outright the main argument for universality - that it recognizes the contribution made to society by all parents and all pensioners - or contend that our hard-pressed economy simply cannot support such social objectives, worthy though they may be in principle. The universal family allowance and Old Age Security programs seem logical targets for cost-cutting because they pay out such vast amounts - about $11 billion in benefits for the 1985-1986 fiscal year.

However, even if Ottawa wanted to put an end to universal social programs, it would have to weigh carefully the potential political losses against the financial gains. **The only way to extract substantial savings from family allowances and old age pensions is to cut off many middle-income as well as affluent families and pensioners.**

Excluding well-off taxfilers (those with incomes above $50,000) from family allowance and Old Age Security benefits would have saved Ottawa only about $120 million in 1981. The income cut-off would have to be as low as $25,000 in order to make a significant dent in social spending - $805 million, which amounts to only 1 percent of the federal government's $71 billion budget for 1981. More than one-third of families who now get the family allowance and 12 percent of pensioners would lose their benefits if the income cut-off were as low as $25,000.

Slapping a special surtax on family allowances and old age pensions (i.e., taxing back from upper-income recipients a larger chunk of their benefits than they now pay in income tax) would save even less money since affluent parents and pensioners would still end up with some after-tax benefits. The Consultation Paper rules out a special surtax on Old Age Security payments, though not necessarily for family allowances. But even if well-off families paid back more of their family allowance through a surtax, the distribution of child benefits would continue to make no sense because they still would get most of their benefit from the regressive child tax exemption.

Family allowances and the old age pension are popular programs which benefit millions of Canadians, including the middle-income majority. To deny or cut payments to the middle class would be to renege on what has been termed a 'social contract' between Canadians and their federal government. A government which tampered with the principle of universal payment would risk alienating a large segment of the electorate, and an opposition party which added the repeal of universal pensions and family allowances to its platform might lose more votes than it would gain from the proposal. Even if benefits were denied only to the minority of well-off recipients, the anxiety and uncertainty engendered among many pensioners and parents - even those who would not be affected by the change - could prove a political liability that might haunt a political party at the next election.

Middle-class support is also essential to the social security system in general and poor people in particular. All Canadians, no matter where they live or what their income, benefit from universal programs at some point in their lives. Abandoning the principle of universality could weaken the foundation of Canada's social security system. Over time, taxpayers' support for social spending could decline and people who have to turn to selective programs for financial assistance might suffer as a result.

Many middle-income Canadians believe that they bear more than their share of the tax burden relative to what they get from government in return.

Universal programs such as family allowances and Old Age Security are among the few benefits that most taxpayers receive from the social security system. The middle-class majority's willingness to finance improvements in selective social programs directed to low-income persons, or even to maintain such spending at its present level, could well decline if universal measures such as old age pensions and family allowances were dismantled.

Another argument in favor of universal family allowances relates to the issue of 'horizontal equity'. The notion here is that a couple supporting children has a lower disposable income than a childless couple at the same income level; child benefits to some extent rectify this problem by helping to offset the costs involved in raising children. If the children's tax exemption is eliminated (a proposal considered in the Consultation Paper and long advocated by the Council), then a case can be made for continuing to pay family allowances to upper-income parents since it is the only child benefit left to them; without it, they would receive no recognition whatsoever of their child-rearing responsibilities.

Elderly Benefits

The Consultation Paper also takes a sensible position concerning benefits for the elderly. It refuses to meddle with the two income security programs - Old Age Security and the Guaranteed Income Supplement - that form the indispensable foundation of Canada's retirement income system. The paper holds out the possibility of changes to tax expenditures which affect the elderly; it invites but does not itself present proposals on how to reform the age exemption and pension income deduction, to which we would add the income tax deductions for contributions to the Canada and Quebec Pension Plans, registered pension plans and registered retirement savings plans (RRSPs). However such income tax-delivered benefits are but one element in a larger package of pension reform proposals which Ottawa is negotiating with the provinces.

We agree that the complex and difficult task of pension reform should be considered as a separate issue. To that end the National Council of Welfare recently released a five-report series on the aged and the retirement income

system. We offered a comprehensive program of reform, including the conversion of existing tax provisions (the age exemption, pension income deduction and deductions for contributions to the Canada and Quebec Pension Plans, private pension plans and RRSPs) to tax credits.

Tax Reform

The Consultation Paper's signal achievement is its acknowledgement that the real target of social reform must be regressive tax expenditures such as the children's tax exemption. For this reason the report deserves to be recognized as one of the breakthrough documents in the history of Canadian public policy.

Experience shows that tax reform is a difficult and potentially risky business for government. Many individuals and corporations regard their tax breaks as entitlements and vigorously oppose any effort to reduce or eliminate them. Even modest-income taxpayers who derive only small tax savings from exemptions and deductions still may defend them unless given a better alternative.

The Consultation Paper has been faulted for not attempting a broader program of tax changes. This criticism ignores the political realities of tax reform. The best hope for achieving tax reform is one step at a time, with well thought-out proposals that offer superior alternatives to the present inequitable system of tax expenditures.

The last major advance in federal social policy was the child tax credit in 1978. This newest child benefit program has successfully demonstrated that the income tax system can be used to deliver benefits which most help lower-income Canadians, rather than affluent taxpayers as is the case with most tax expenditures.

The next step in the reform of child benefits must be the elimination of the children's tax exemption and the reallocation of the savings that result to finance an increase in the child tax credit. The Consultation Paper presents this and a related option for the reform of child benefits which we analyze in the following chapter.

OPTIONS FOR REFORM

The Consultation Paper presents two illustrative models for the reform of federal child benefits. Each has its strengths and weaknesses. Neither is acceptable in its present form.

However the options are not engraved in stone. The Consultation Paper is careful to point out that the models "do not constitute specific proposals for change endorsed by the government" but rather are put forward to stimulate public discussion and alternative suggestions for reform.[8] We offer a better proposal for the reform of child benefits in this chapter.

For the sake of convenience, we will identify the Consultation Paper's "consultation option" as Option A and its "alternative option" as Option B. Option C is the National Council of Welfare's proposed change to child benefits.

Three Options for Reform

Table 4 summarizes the various child benefits paid under the current system and by the three options for reform.

Table 4

Annual Child Benefits Per Child, by Option, 1985

	Family Allowance	Child Tax Credit	Turnover Point	Child Tax Exemption
Current System	$375	$367	$26,330	$710
Option A	375	595	20,500	0
Option B	240	610	25,000	240
Option C	375	595	27,000	0

The existing system is made up of three programs. The family allowance is a taxable benefit worth $31.27 a month or $375 a year for each child. The child tax credit pays $367 per child; the 'turnover point' - the level above which benefits are reduced by 5 cents for every dollar - is $26,330 in net family income. The children's tax exemption is $710 per child.

Option A, the "consultation option", leaves the family allowance unchanged. However it abolishes the children's tax exemption and raises the child tax credit from $367 to $595 per child. The turnover point for the child tax credit is lowered from $26,330 to $20,500 in net family income.

Option B, the "alternative option", lowers the family allowance from $31.27 to $20.00 per month, or from $375 to $240 a year. The children's tax exemption is reduced from $710 to $240. The child tax credit is increased to $610 a year per child, and the turnover point lowered to $25,000 in net family income.

Our own proposal, Option C, is the same as Option A but with one important change. Instead of lowering the child tax credit's turnover point (from $26,330 to $20,500), Option C raises the turnover point slightly from $26,330 to $27,000 in net family income. Moreover the definition of net family income is changed to disallow the deduction of contributions to private pension plans, RRSPs and RHOSPs, as recommended later in this chapter.

Assessing the Options

Table 5 compares the three options with the current system. We illustrate total child benefits for a two-earner couple with two children at different earnings levels. Appendix F gives a more detailed breakdown of the current system and the three options, showing payments from each child benefit program as well as the effects of the various options on a one-earner couple and a single-parent family.

Table 5

Child Benefits, Two-Earner Couple With Two Children, by Earnings and Option, 1985

Family Earnings	Current System	Option A Amount	Option A Change	Option B Amount	Option B Change	Option C Amount	Option C Change
$ 0	$1,484	$1,940	$ 456	$1,700	$ 216	$1,940	$ 456
10,000	1,484	1,883	399	1,700	216	1,883	399
15,000	1,650	1,751	101	1,700	50	1,751	101
20,000	1,662	1,740	78	1,700	38	1,740	78
25,000	1,672	1,729	57	1,700	28	1,729	57
30,000	1,680	1,575	-105	1,700	20	1,721	41
33,000*	1,682	1,438	-244	1,645	- 37	1,718	36
40,000	1,411	1,074	-337	1,324	- 87	1,399	- 12
50,000	1,007	579	-428	842	-165	904	-103
60,000	997	472	-525	480	-517	472	-525
80,000	1,047	417	-630	480	-567	417	-630

* Earnings plus child benefits approximate median income for family with two children (estimated $35,000).

We apply three criteria in assessing the three options for change: 1) the overall distribution of benefits should be progressive (i.e., the higher a family's income, the lower its total child benefit, and vice-versa); 2) lower-income families should receive more than they do under the current system; and 3) middle-income families should get no less than they do now.

Option A has two good features. It substantially improves child benefits for poor families; those earning $10,000 or less are $400 or more

better off a year. It also results in a progressive distribution of benefits, so that payments are rationally related to financial need.

Option A's fatal flaw is that many moderate-income families would be worse off than under the present system. A two-earner couple with $33,000 in earnings currently receives $1,682 in child benefits, bringing its total income to $34,682, which is about the estimated median (i.e., mid-point) income of $35,000 for a family with two children in 1985. Option A reduces its child benefits by $244 a year. Losses for two-earner couples would begin at the $29,000 earnings level; adding in child benefits available under Option A, total income comes to $30,631, which is $4,369 below the median income. The Consultation Paper points out that one-earner couples with incomes as low as $23,000 - just two-thirds of median family income - would experience a net loss in benefits under Option A.[9]

Option B also increases child benefits for low-income families, but not as much as Option A. The poorest couples get $216 more under Option B - less than half the $456 gain that Option A provides. Option B also improves on the current system by producing a relatively progressive distribution of benefits.

The major advantage of Option B is that, unlike Option A, it leaves middle-income families about where they are under the current system. Families with above-average incomes get less than they do now, the loss increasing as income increases.

A drawback to Option B is that it cuts family allowances from $375 to $240 per child per year. It is true, of course, that lower-income families come out ahead at the end of the year because Option B raises their child tax credit by two-thirds whereas it reduces family allowances by only one-third. However poor parents often have difficulty making ends meet from week to week and so would be hurt by a reduction in their monthly family allowance cheque. Women's groups also will object to any proposal like Option B which substantially lowers the family allowance payment.

Our own proposal, Option C, offers the advantages of the Consultation Paper's two options with none of their disadvantages. Benefits are distributed in an equitable manner. Poor families enjoy a significant boost to their child benefit, as under Option A. Middle-income families are fully protected, as under Option B. Only those with incomes above average see a loss in benefits, and the reduction is geared to their financial capacity (the higher their income, the greater their loss).

Other Changes to the Child Tax Credit

Two additional changes should be considered for the child tax credit. The first concerns the income definition used to determine eligibility for the child tax credit, and the second the frequency of payments.

The income definition used to determine eligibility for the child tax credit should be improved. At the present time, an applicant is allowed to deduct contributions she and her spouse make to registered pension plans, retirement savings plans and home ownership savings plans when calculating net family income.[10] As a result, a family whose real income is too high to qualify for any child tax credit may end up receiving a benefit if (as is likely) it manages to reduce its income sufficiently by deducting contributions to RRSPs, RHOSPs and private pension plans. Similarly, a family may receive the maximum amount of the child tax credit when - if such deductions were not allowed - it would get only a partial benefit.

This problem can be illustrated using the example of a one-earner couple with two children and earnings of $44,000 in 1985. Suppose that the earner contributes $2,500 to a registered pension plan, $1,000 to a retirement savings plan and $1,000 to a home ownership savings plan. (These assumptions are realistic, since higher-income Canadians are in a better financial position to take advantage of such tax-reducing savings and investment vehicles). If the child tax credit did not permit the deduction of contributions to private pension plans, RRSPs, and RHOSPs, the family in question would not qualify

for any benefits. However the existing 'net family income' definition does allow these contributions to be deducted, which means that the family can reduce its income for child tax credit purposes by $4,500 and thereby qualify for a benefit of $194.

A simple change in the income tax schedule so that the income definition no longer permitted the deduction of contributions to registered pension plans, RRSPs and RHOSPs would plug this wasteful leak of child tax credit money to affluent families. The savings that result should be used to help increase child tax credit payments to low and modest-income families.

At the present time the child tax credit is paid once a year in a lump sum. Many families, particularly those with limited incomes, welcome the annual payment as a way of financing major purchases that their normal budgets are hard pressed to allow. Others have argued that the child tax credit should be delivered more frequently throughout the year, so that the money could be used to help pay for routine items such as food, utilities and clothing.

Our proposal (like the Consultation Paper's two options) will result in a substantial boost in the child tax credit. A two-earner family with two children and net income below $27,000 would receive $1,190 this year (as opposed to $700 under the existing child tax credit); an extra child would bring the total maximum child tax credit to a sizable $1,785. We believe that families would benefit more if they got the enriched child tax credit several times a year, especially since the installments still would amount to considerable payments. Parents who need a child bonus more than once a year now would have it, while those who want to save up their installments to pay for large purchases or accumulate savings would be free to do so.

Therefore we recommend that the enriched child tax credit be paid more than once a year. One option worth considering would be to divide the credit into three installments - the first in the spring, the second in late summer just before school begins, and the third before Christmas.

The Provincial Role in Reform

Although the Consultation Paper and this report deal with federal child benefits, the provinces have an important role to play. Ottawa will have to seek the agreement of the provincial governments to ensure that the reform of child benefits achieves its full promise.

As explained earlier, Option A results in losses to many moderate-income families. This unfortunate effect is mainly due to Option A's lowering the turnover point from $26,330 to $20,500, which would mean partial benefits for many moderate-income families who receive the maximum child tax credit under the current system. The Consultation Paper says this is an "unintended" result of the fact that not all the $1.2 billion saved by eliminating the children's tax exemption would be available to improve the child tax credit.[11]

Under Option A, the provinces would enjoy a windfall gain of $330 million, which is their share (in provincial income taxes) of the revenue loss due to the children's tax exemption. Option A also provides $80 million to the federal government "for other priority concerns in the social envelope"; this money likely would be used to compensate Quebec for the fact that it would receive no windfall gain from the abolition of the child tax exemption because its already does not provide such a tax break in its provincial income tax system. In the end, then, only $800 million of the $1.2 billion now spent on the child tax exemption would be available to reform the child benefits system.

The Minister of National Health and Welfare himself provided the solution to this problem in the House of Commons the day after the Consultation Paper was released. Ottawa could negotiate the provinces' agreement to leave their $400 million windfall in the child benefit system so that it could be improved to the maximum extent possible.[12]

We recommend that the federal government seek provincial approval to redirect the full $1.2 billion from the child tax exemption to the child tax credit. This sum would finance our Option C's proposal to raise the child tax

credit to $595 and set the level of net family income below which the maximum child tax credit is paid at $27,000. This approach will protect middle-income families and at the same time substantially increase child benefits for lower-income Canadians.

Provincial cooperation is also essential to ensure that welfare recipients receive the full benefit of the reform. No province or territory counts family allowances or child tax credits as income when determining whether a family is eligible for social assistance and how much it will receive. However only two provinces - Quebec and Nova Scotia - index their welfare benefits to the cost of living; the other provinces raise their payments on an irregular basis by whatever amount and at whatever times their cabinets decide.

A province effectively could decide not to pass along the full child tax credit increase to its welfare families by subtracting this amount from their next social assistance rate increase. Our proposal will raise the child tax credit by $228 per child per year, which works out to $19 a month more than the present system. A provincial government could deduct this amount from its next welfare rate increase, leaving families with children no further ahead. Of course there is no way that anyone other than the provincial welfare minister and his or her colleagues could know this had happened. We urge the Minister of National Health and Welfare to raise this issue with his provincial colleagues to ensure that welfare families - among the poorest of the poor - receive the full increase in the child tax credit.

Other Child Benefits

The Consultation Paper focuses on three major child benefit programs - family allowances, the child tax credit and the children's tax exemption. However there are two additional programs which supplement the income of some families with children. The equivalent to married exemption allows a single parent to deduct from taxable income $3,630 for one dependent (the deduction is the same amount as the married exemption). The child care deduction permits

a single parent or the spouse with the lower income in a couple to deduct from taxable income up to $2,000 per child (the maximum is $8,000 for a family) for child care expenses. Appendix C explains these programs.

The equivalent to married exemption and child care deduction help recognize the financial needs of single parents and couples in which both spouses work in the paid labor force. The problem is that, like the child tax exemption, these are regressive programs which provide little or no help to the poorest parents and give their largest benefit to well-off taxpayers.

Once the primary child benefits system (i.e., family allowances, the child tax credit and the child tax exemption) is successfully reformed, attention should turn to the two other child benefit programs. One possibility that should be explored is converting the equivalent to married exemption and child care deduction to tax credits. These could be patterned along the lines of the child tax credit to ensure that low and middle-income families benefit most.

THE REFORM OF CHILD BENEFITS - AND BEYOND

Any proposal to reform child benefits should achieve three key objectives: redistribute resources to families who need them most; maintain a foundation of universal payments for all families with children; and require no increase in government spending.

We have recommended a major restructuring of federal child benefits. **The children's tax exemption should be abolished and all the savings that result - federal and provincial - reallocated to increase the refundable child tax credit. Family allowances should remain a universal but taxable benefit.**

Under the National Council of Welfare's proposal, the child tax credit increases from $367 to $595 per child per year, and the turnover point (the level of net family income above which the child tax credit is reduced by 5 cents for every dollar of additional income) is set at $27,000 (about three-quarters of the median income for a family with two children). The family allowance continues to pay all families $31.27 a month. The child tax credit, its turnover point and the family allowance should be indexed annually to the cost of living.

We recommended two additional changes in the design of the child tax credit. **The enriched child tax credit should be paid more than once a year. The income definition used to determine eligibility for the child tax credit should be amended to disallow deductions for contributions to registered pension plans, retirement savings plans and home ownership savings plans.**

The Council's proposal will create a simpler system of child benefits which distributes benefits in a rational and equitable manner. Poor and modest-income families will enjoy a badly-needed boost in their child payments. Middle-income families will be fully protected, receiving about what they get from the existing system. Families with above-average income will get less than they do now, though all will continue to receive the family allowance in recognition of their child-rearing role.

Our proposal will accomplish more than an equitable system of child benefits. It also will strengthen the federal government's fight against both poverty and unemployment.

Canada achieved considerable progress in reducing the risk of family poverty during the 'sixties and 'seventies. In 1969, one in five (20.8 percent) families lived below the poverty line. By 1981, the proportion of poor families had declined to one in eight (12.0 percent).

Unfortunately the recent recession has reversed the long-term decline in family poverty. The number of low-income families and their share of the population has increased each year since 1981. At last count (1983) close to a million families (967,000) were below the poverty line - 30 percent more than in 1981. One family in seven now lives on a low income.

The rising tide of poverty has caught many children in its grip. In 1980, 896,000 children under age 16 lived in low-income families. Their ranks increased to 969,000 in 1981, 1,113,000 in 1982 and an estimated 1,200,000 in 1983. Poverty now affects one Canadian child in five.

The reform of child benefits alone cannot solve the problem of family poverty, but it can slow its spread and ease its effects. Eliminating the children's tax exemption in order to boost the child tax credit will reduce the number of children living in poverty and improve the incomes of poor and near-poor families throughout Canada. The rapidly rising number of single mothers, almost half of whom live below the poverty line, will especially benefit from our proposals.

A restructured system of child benefits will also help ease the effects of unemployment. In 1984 there were on average more than a million families (1,037,000) with at least one member out of work; the large majority of these families - 776,000, or three in every four - have children to support. Our reforms will supplement the incomes of thousands of parents suffering lost income as a result of prolonged unemployment.

The poor and the unemployed will profit from the reform of child benefits: So also will the economy. The Council's proposal will increase the disposable income of low and moderate-income families with children. Not only will this extra money help stretch their limited budgets, but it also will stimulate consumer spending which, at a time when Canadian businesses are eager for customers, will contribute to economic recovery.

The proposed reform of federal child benefit programs offers an additional advantage. The restructured system will not add one cent to government spending because it will be financed through a reallocation of existing resources. For the same amount of money more wisely spent, the federal government will achieve an equitable child benefits system that combats poverty, eases the burden of unemployment and creates jobs. Our proposal is fiscally responsible as well as socially just.

The tax system pays out billions of dollars each year to individuals and corporations, yet we know next to nothing about exactly how much is spent, for what purpose and to what effect (except that tax expenditures benefit upper-income taxpayers most). At the very least, the Minister of Finance should follow the example of the American government and publish a detailed and comprehensive account of both personal and corporate tax expenditures - a recommendation the National Council of Welfare has made repeatedly since 1976. Such a tax expenditure budget would complement the direct spending estimates tabled each year in the House of Commons. Better still, the federal government should conduct a thorough assessment of the purpose and performance of each tax subsidy as part of a broad review of all government expenditures - tax expenditures as well as direct spending programs.

The child benefits debate, then, has broader significance for Canadian public policy. By tying the reform of child benefits to the elimination of the children's tax exemption, the Consultation Paper on Child and Elderly Benefits sets an important precedent that could lead to long-overdue changes in the many other government programs that are delivered through the tax system.

APPENDIX A

GLOSSARY OF TERMS

Child Benefits System. Total benefits available to families with dependent children under 18 from the family allowance, child tax credit and children's tax exemption. Some families also benefit from two other child-related programs defined below - the child care deduction and the equivalent to married exemption.

Child Care Deduction. A single parent or the spouse with the lower income in a couple can deduct from his or her taxable income up to $2,000 per child to a family maximum of $8,000 for child care expenses required to earn income from employment or self-employment, do research or similar work, or take training courses.

Child Tax Credit. The person who receives the family allowance (usually the mother) is eligible for a tax credit of up to $367 per child for the 1984 taxation year, payable in 1985; the credit for the 1985 taxation is $384 per child, payable in 1986. The maximum credit is paid to families with net income (defined below) of $26,330 or less; the credit is reduced by 5 cents for every dollar above this amount. The child tax credit is normally indexed to the cost of living, though the $26,330 net family income limit for the maximum benefit has been frozen since the 1982 taxation year.

Child Tax Exemption. A single parent or (normally) the spouse with the higher income in a couple deducts from taxable income $710 for each dependent child under age 18. The child tax exemption has been frozen at $710 since 1983; from 1974 to 1982, it was indexed to the cost of living.

Equivalent to Married Exemption. A taxfiler who is single, divorced, separated or widowed can deduct $3,630 from his or her taxable income for a dependent live-in relative. Thus a single parent can reduce his or her taxable income by $3,630 for a dependent child; for a second and each additional child, only the child tax exemption can be claimed.

Family Allowance. A monthly benefit paid (normally to the mother) on behalf of every child under age 18. For 1985 the benefit is $31.27 a month per child. In Alberta, the family allowance varies according to the child's age; in Quebec, the federal family allowance varies according to the number and age of children in a family. Family allowances are taxable.

Net Family Allowance. Family allowances less federal and provincial income taxes paid on them. The poorest families are below the taxpaying threshold and so keep the full amount of their family allowances. High-income families in the top marginal tax bracket return about half of their family allowances in the form of federal and provincial income taxes.

Net Family Income. The definition of income used by the child tax credit. Net family income is defined as total income (of the mother and her spouse or any other person who claims a tax exemption in respect of a child) from all sources that must be reported for income tax purposes (employment earnings, family allowances, unemployment insurance, taxable capital gains, interest, dividends, etc.) minus the following major deductions: the 20 percent or $500 employment expense deduction, Canada or Quebec Pension Plan contributions, unemployment insurance premiums, registered pension plan contributions, RRSP contributions, RHOSP contributions, union or professional dues, tuition fees, child care expenses, and allowable business investment losses.

Progressive. A government program which distributes its benefits according to financial need: Lower-income recipients get most and upper-income recipients least. In simple terms, the more you make, the less you get. The family allowance and child tax credit are progressive programs.

Regressive. The opposite of progressive. A regressive program pays the largest benefits to well-off recipients, lesser benefits to middle-income recipients, and little or nothing to poor people. All tax exemptions and deductions, such as the child tax exemption, are regressive programs.

Selective. A government program which determines eligibility on the basis of a recipient's income. The child tax credit, for example, excludes higher-income families (for a family with two children, those with net family income above $41,010). The child tax exemption, on the other hand, excludes the poorest families whose incomes are so low that they do not pay income tax.

Surtax. As used in the review of social programs, a way of taxing back more benefits than are currently recovered through the income tax system. For example, unemployment insurance beneficiaries pay income tax on their benefits. They are also subject to a surtax on benefits; if their net income in 1984 was $33,150 or more, they must pay back 30 percent of their unemployment insurance benefits or 30 percent of the amount by which their net income exceeds $33,150, whichever is less. Some people argue that a surtax also should be applied to family allowances and old age pensions in order to recover from higher-income families and pensioners more benefits than they pay back in income taxes.

Tax Expenditure. A deduction or exemption from income, credit against tax, preferential tax rate, deferral of tax or tax reduction which lowers the taxes owed by an individual or corporation. Examples of personal income tax expenditures are the child tax exemption, the child tax credit, the married or equivalent exemption, the pension deduction, and the deductions for contributions to the Canada and Quebec Pension Plans, RRSPs, RHOSPs and registered pension plans.

Turnover Point. The income level above which the child tax credit is reduced. The maximum child tax credit ($367 per child for the 1984 taxation year, payable in 1985) goes to families with net family income of $26,330 or less. Above this turnover point, the child tax credit is reduced by 5 cents for

every dollar of additional income. For a family with two children, this means a full $734 in benefits if net income in 1984 was below $26,330 (the turnover point), a diminishing credit if income was between $26,330 and $41,010, and no credit if income exceeded $41,010.

Universal. A government program which benefits all recipients in a particular category, regardless of their income. National health insurance serves all Canadians, whatever their income. Family allowances go to all families with children under age 18, and Old Age Security payments to all persons aged 65 or over, whatever their income.

APPENDIX B

A GUIDE TO FEDERAL CHILD BENEFITS

The family allowance is the best known federal cash benefit for families with children. However there are two other programs - the child tax credit and the children's tax exemption - that also deliver income supplements to large numbers of Canadian parents.

The following pages explain how the programs operate, how much they cost and whom they benefit. We also assess the impact of the three child benefits added together.

Family Allowances

a. benefits

The federal government introduced family allowances in 1945. In 1985, the program pays families $31.27 a month on behalf of each child under the age of 18. Normally the family allowance cheque is made out to the mother.

A province can vary the federal family allowance according to the age and/or number of children in a family, provided no monthly allowance is less than 60 percent of the national rate and, over a four-year period, total payments are the same as they would have been if the federal rate had been in effect. Only two provinces have chosen this option. In Alberta, family allowances vary according to children's ages; the 1985 monthly rates are $24.50 for youngsters 6 and under, $30.00 for those 7 to 11, $39.80 for 12 to 15 year-olds, and $45.00 for those aged 16 or 17. Quebec gears its federal family allowance payments to the number and age of children in a family; the 1985 benefits are $18.77 a month for the first child, $29.81 for the second, and $72.55 for the third and each additional child. These amounts are increased by $7.67 a month for every child between the ages of 12 and 17.

Family allowances have been indexed to the cost of living since 1974. Each January, the family allowance rate is raised to take into account the increase in the Consumer Price Index during the twelve months ending the previous October. However, as a fiscal restraint measure, Ottawa suspended indexation of family allowance benefits for 1976 and limited increases to 6 percent in 1983 and 5 percent in 1984.

b. costs

Family allowance payments will total $2.45 billion in 1985. The cost to administer this large social program is relatively modest - $22.9 million for the 1984-85 fiscal year, which amounts to less than 1 percent of total payments.

Because family allowances are taxable, the federal and provincial governments recoup about one-quarter the amount of the program's costs at income tax time. Therefore the real price tag for family allowances is $1.8 billion for 1985 (i.e., $2.45 billion paid out less $460 million recovered through federal and $180 through provincial income taxes).

c. eligibility

The family allowance is a **universal** income security program. All families with children under 18 are eligible, regardless of their income or wealth.

d. applying for benefits

Application forms are available at hospitals, post offices and Health and Welfare Canada's Income Security Programs offices throughout the country. No documents are required for children born in Canada, though a birth certificate or other acceptable proof is needed for children born abroad. Benefits end automatically when the child turns 18.

e. recipients

Family allowances benefit more Canadians than any other social program. Each month this year, Ottawa will mail out 3.6 million cheques to families across Canada on behalf of 6.6 million children.

Table 6 shows that close to six in ten Canadian families benefit from the family allowance program. The proportion of families receiving benefits is higher than the national average in Atlantic Canada, Alberta, the Yukon and the Northwest Territories, lower in Ontario and British Columbia, and close to average in Quebec, Manitoba and Saskatchewan. However even in British Columbia, with the lowest figure of all, over half of all families get family allowances.

f. who gets most

At first glance it might seem unfair and wasteful that an affluent family with two children gets the same $62.54 cheque each month as a single mother struggling to raise two children on an income below the poverty line. Contrary to what many people believe, however, **family allowances do not benefit rich and poor equally**. Benefits are counted as taxable income by Revenue Canada. An $80,000-a-year family with two children will pay back $333 of its annual $750 family allowances in income tax, leaving it with a net benefit of $417 for 1985. On the other hand, a family living on $10,000 or less pays no federal or provincial income tax and so keeps its entire $750 in family allowance benefits.

Table 7 shows net (i.e., after tax) 1985 family allowances for families at different earnings levels.[2] (We assume that each family is a two-earner couple with two children.) Because the personal income tax system is progressive - the proportion of income which an individual pays in taxes increases as his or her income increases - the distribution of net family allowances is also **progressive**: The higher a family's income, the lower its real benefit.

Table 6

Family Allowance (FA) Statistics By Province, January 1985

	Number of FA Families	Number of FA Children	Average No. of Children Per FA Family	Average Allowance Per Family	FA Families as Percentage of All Families (1981)
Newfoundland	97,519	190,780	1.96	$61.55	71.5%
Prince Edward Island	18,609	36,153	1.94	61.15	61.4
Nova Scotia	129,319	234,428	1.81	57.18	59.6
New Brunswick	110,868	204,187	1.84	57.95	62.6
Quebec	940,585	1,640,357	1.74	54.42	57.3
Ontario	1,263,706	2,268,445	1.80	56.89	55.5
Manitoba	151,296	289,642	1.91	60.59	56.2
Saskatchewan	146,798	293,850	2.00	63.28	57.9
Alberta	354,179	666,167	1.88	59.81	58.9
British Columbia	402,256	726,813	1.81	57.33	53.8
Yukon	3,932	7,160	1.82	57.87	67.3
Northwest Territories	9,264	20,304	2.19	69.96	84.6
CANADA	3,628,331	6,578,286	1.81	57.22	57.0

Table 7

Net Family Allowances, Two-Earner Couple With Two Children, by Family Earnings, 1985

Family Earnings	Annual Net Family Allowance
$10,000 or less	$750
15,000	560
20,000	550
30,000	539
40,000	528
50,000	482
60,000	472
80,000 or more	417

Child Tax Credit

a. benefits

The newest federal family program, the refundable child tax credit, was legislated in 1978 and made its first payments in 1979. The maximum benefit is $367 for each child for the 1984 tax year, payable in the early months of 1985. (The maximum benefit for the 1985 tax year is $384 per child, payable in 1986). The program will pay $1.425 billion worth of credits to two and a half million families on behalf of five million children in 1985. Whereas family allowances are paid monthly, the child tax credit is a lump-sum, once-a-year baby bonus delivered through the income tax system.

The child tax credit, like the family allowance, normally is indexed to the cost of living. However, as one of the anti-inflation measures announced in the June 1982 Budget, the federal government limited family allowance increases to 6 percent in 1983 and 5 percent in 1984. To protect low and

moderate-income families from any losses due to rates of inflation above the 6 and 5 limits, the child tax credit for the 1982 tax year was given a $50 boost above the normal inflationary increase ($50 more than $293), bringing the maximum benefit to $343. The $50 increase was to have been a special one-time only increase, which means that the resumption of normal indexation actually would have lowered the maximum benefit for the 1983 tax year to $326. However the April 1983 Budget instead extended the child tax credit at $343 for the 1983 tax year.

Since then, indexation has brought the child tax credit to $367 for the 1984 tax year and $384 for the 1985 tax year.

When the child tax credit was introduced in 1978, families with net incomes below $18,000 qualified for the maximum payment. (The child tax credit was reduced by 5 cents for every dollar of net family income above $18,000; this reduction rate still applies.) This income level, like the child tax credit, was increased each year to take into account the rise in the cost of living, reaching $26,330 by the 1982 taxation year.

However, indexation then was suspended, so that the family income level for receipt of the maximum child tax credit has remained frozen at $26,330. Table 8 shows the maximum child tax credit per child and the net family income level for maximum benefits for each taxation year since the program was introduced.

Table 8

Taxation Year	Maximum Child Tax Credit Per Child	Maximum Net Family Income for Receipt of Full Child Tax Credit
1978	$200	$18,000
1979	218	19,620
1980	238	21,380
1981	261	23,470
1982	343	26,330
1983	343	26,330
1984	367	26,330
1985	384	26,330

b. costs

The child tax credit will cost the federal government $1.425 billion during 1985. The child tax credit entails no costs for provincial governments.

c. eligibility

Like family allowances, the child tax credit is paid on behalf of children under the age of 18. However the child tax credit is restricted to low and middle-income families. For this reason it is characterized as a **selective** program, as opposed to the family allowance which is universal.

When a mother applies for the child tax credit, she must indicate her 'net family income'. 'Net income' is defined as total income from all sources that must be reported for income tax purposes (employment earnings, family allowances, unemployment insurance, taxable capital gains, interest, dividends, etc.) minus certain deductions (such as the 20 percent or $500 employment expense allowance, Canada or Quebec Pension Plan contributions, unemployment insurance premiums, contributions to a registered pension plan, retirement savings plan or home ownership savings plan, union and professional dues, child care expenses, and moving expenses). 'Family income' means the net income of the mother and her spouse or any other person who claims a tax exemption in respect of the child.

The full child tax credit ($367 for each child) goes to mothers whose net family income was $26,330 or less in 1984. The amount of the credit is reduced by 5 cents for every dollar of family income over $26,330. For a family with two children, this means a full $734 in benefits if net income in 1984 was below $26,330, a diminishing credit if income was between $26,330 and $41,010, and no credit at all if income exceeded $41,010. Table 9 gives the benefits to which families of different size and income are entitled for the 1984 tax year, payable in 1985.

Table 9

Child Tax Credit, by Family Income and Number of Children, 1984 Taxation Year

Net Family Income	Number of Children: 1	2	3	4
$26,330 or less	$367	$734	$1,101	$1,468
28,000	284	651	1,018	1,385
30,000	184	551	918	1,285
32,000	84	451	818	1,185
35,000	0	301	668	1,035
40,000	0	51	418	785
45,000	0	0	168	535
50,000	0	0	0	285
55,000	0	0	0	35

d. applying for benefits

The child tax credit is delivered through the income tax system. The parent who receives the family allowance (usually the mother) applies for the credit by filling out a simple schedule in the income tax form.

If the mother works outside the home and earns sufficient income that her federal tax (before applying the credit) exceeds the value of the credit to which she is entitled, then her tax will be reduced by the amount of the credit. If, on the other hand, she earns only a small amount of outside income so that her federal tax is less than the credit, the difference will be refunded to her by the government. If she owes no federal tax at all - either because she has no taxable income or because she has already paid all the tax she owes through tax withholding by her employer - she will be refunded the full amount of her credit entitlement.

e. recipients

In 1983, the most recent year for which statistics are available, 2.6 million families received a child tax credit in respect of the 1982 tax year - 72 percent of all families with children. Seven in ten families who qualified for the child tax credit received the maximum payment. We estimate that 2.5 million families will get a child tax credit in 1985.

Table 10 gives the provincial breakdown of child tax credit data. The percentage of families with children under 18 (i.e., those who get the family allowance) who receive the child tax credit ranges from 53 percent in the Yukon to 87 percent in New Brunswick. The average child tax credit per family is lowest for those living outside the country ($520) and highest for those living in Newfoundland ($667). The percentage of child tax credit families who qualify for the maximum payment varies from 58 percent for those living outside Canada to 79 percent in Prince Edward Island.

It is clear that the child tax credit is particularly important for families living in the Atlantic provinces and Manitoba where family incomes are below the national average and family poverty rates are higher than average; more than 80 percent of families in these provinces get the child tax credit. The variation in the average child tax credit per family is largely the result of provincial differences in average family size. Provinces and territories with the highest average number of children per family (the Northwest Territories, Newfoundland and Saskatchewan are the top three) also receive the largest average benefit per child tax credit family. Conversely Quebec, British Columbia and Ontario have the lowest average number of children per family and the lowest average child tax credit per family.

Table 10

Child Tax Credit (CTC), by Province, 1982 Taxation Year

	Number of CTC Families	CTC Families as Percentage of Families with Children	Average Child Tax Credit per CTC Family	Percentage of CTC Families with Maximum Credit
Newfoundland	83,842	86%	$667	76%
Prince Edward Island	15,750	85	642	79
Nova Scotia	108,429	84	589	76
New Brunswick	96,338	87	624	78
Quebec	729,197	76	565	73
Ontario	880,052	69	551	64
Manitoba	121,871	81	632	73
Saskatchewan	105,419	73	653	71
Alberta	216,871	62	576	63
British Columbia	265,035	66	555	64
Yukon	2,132	53	571	67
Northwest Territories	6,003	70	760	75
Outside Canada	3,032	-	520	58
Total	2,636,971	72	574	68

f. who gets most

Table 11 proves that the child tax credit most benefits families who need it most. Eight out of ten families who received the child tax credit for the 1982 tax year had incomes below the median family income ($30,000). Eighty-eight percent of child tax credit payments went to families with incomes below the median.

The child tax credit, like the family allowance, is a **progressive** program because lower-income families receive larger benefits than higher-income families. However, since the family allowance is a universal program, even a rich family ends up with some benefit (although much less than a poor family). The child tax credit, on the other hand, is a **selective** program which excludes upper-income families.

Take the example of a family with two children. As Table 9 shows, the maximum child tax credit ($734) goes to families with net income below $26,330. A $35,000-a-year family gets $301 - less than half the maximum credit. A family with a net income of $41,010 or more receives no child tax credit.

The child tax credit is particularly important to single parents who, on average, have lower incomes and run a much higher risk of poverty than couples with children. (In 1982, the latest year for which complete data is available, 47 percent of one-parent families headed by women and 19.6 percent of those led by men were below the poverty line, compared to 10.6 percent of couples with children).[13] The overwhelming majority of single parents who receive the child tax credit have low or modest incomes; 81 percent were below $15,000 in 1982, compared to only 28 percent of married recipients. Almost all (97 percent) single parents who get the child tax credit have incomes low enough to qualify for the maximum benefit, as opposed to only 64 percent of those who are married.

Table 11

Percentage Distribution of Child Tax Credit Families and Benefits, by Marital Status and Net Family Income, 1982 Taxation Year

Net Family Income	Single families	Single credit	Married families	Married credit	Total families	Total credit
$ 0 - 26,000	96.5%	97.6%	64.0%	72.8%	68.4%	76.0%
26,000 - 30,000	1.9	1.6	14.0	13.8	12.3	12.2
30,000 and over	1.6	0.8	22.0	13.4	19.3	11.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Children's Tax Exemption

The oldest, yet probably least familiar federal child benefit, is the tax exemption for dependent children. Since 1918, taxfilers have been allowed to deduct a specified sum of money for each dependent child when calculating their taxable income. The rationale for such a benefit is to recognize the fact that taxpayers who are parents have heavier financial responsibilities than taxpayers who do not support children.

a. benefits

For the current (1985) tax year, the children's tax exemption is $710 for every child under 18.

Starting in 1974, the children's tax exemption was indexed to the cost of living. Indexation was limited to 6 percent for 1983, which brought the child tax exemption to $710 per child. Since 1983, the exemption has been frozen at this amount.

However the actual value of the children's tax exemption is **not** $710 per child. To understand who gets what from this child benefit, we must look briefly at how the income tax system operates.

The federal income tax system divides incomes into 10 tax brackets. Taxable income in the lowest bracket (below $1,295 for the 1985 tax year) is taxed at a rate of 6 percent; income in the next bracket ($1,295 to $2,590) is taxed at a 16 percent rate; and so on up to the highest tax bracket in which income above $62,160 is taxed at a rate of 34 percent. With the exception of Quebec, which has its own personal income tax system, the provinces calculate their personal income tax as a percentage of federal tax. Therefore the combined federal and provincial tax rate for each tax bracket is higher than the federal rate; a high-income Ontario taxpayer, for example, pays 50.32 percent of his or her income in the highest tax bracket - 34 percent to the federal treasury and 16.32 percent in provincial income tax.

The higher the tax bracket, the higher the rate at which income in that range is taxed. Such a ladder of tax rates is necessary in a progressive income tax system based on the principle of ability to pay.

Each time an individual earns an additional dollar of income, it goes into his or her highest tax bracket and is taxed at the highest applicable rate (the taxpayer's 'marginal tax rate'). In the same way, each time a dollar of income is exempted from taxation, it comes out of his or her highest tax bracket. A tax expenditure such as the children's tax exemption is worth a lot to a high-income taxpayer because it reduces the slice of income which is taxed at the highest rate, and in some instances moves the taxpayer down a notch into a lower tax bracket with a lower marginal tax rate. While a middle-income taxpayer also can reduce his or her taxable income by the same $710 for each child, the tax saving that results is less because his or her marginal tax rate is lower than that of the affluent taxpayer. In the case of a parent whose income is already so low that he or she pays no income tax, the children's tax exemption simply does not apply.

Take, again, the case of a two-earner couple with two children. The children's tax exemption will lower the 1985 taxable income of an affluent family with earnings of $80,000 from $43,163 to $41,748, which means a $630 smaller tax bill. The head of a middle-income family with $35,000 in total earnings deducts the same $1,420 for his or her two children, but will obtain a tax saving of only $420 - $210 less than that of the high-income taxpayer. A low-income couple with two children and earnings of $15,000 will get only $356 from the exemption. And the poorest families, earning $10,000 or less, do not benefit one cent from the children's tax exemption.

<u>b. costs</u>

The children's tax exemption will cost the federal government $845 million in foregone tax revenue for the 1985 taxation year and the provinces (except for Quebec, which collects its own provincial income taxes and does not have a children's tax exemption) another $330 million. The total bill, then, is $1.175 billion.

c. eligibility

The children's tax exemption and the child tax credit are similar in two respects. They are each delivered once a year through the income tax system and they are **selective** programs because they take income into account when determining which families will receive benefits.

However the two tax-delivered child benefits select in opposite directions. The child tax credit excludes upper-income families, whereas the children's tax exemption provides no benefits to Canada's poorest families with children.

d. applying for benefits

A taxfiler applies for the children's tax exemption simply by deducting $710 for each dependent child under 18 from his or her taxable income. The parent who claims the exemption must add annual family allowances to his or her taxable income. Normally the parent with the higher income claims the children's tax exemption.

e. recipients

About 3 million families - 83 percent of those with children - will benefit from the children's tax exemption this year.

f. who gets most

Table 12 shows the distribution of children's tax exemption benefits in 1985 for a two-earner couple with two children.[2] Families with combined spouses' earnings of $10,000 or less get nothing. Those at the $15,000 level save $356 in federal and provincial income taxes. Benefits increase as family earnings increase, indicating that the children's tax exemption is a **regressive** social program.

Table 12

Child Tax Exemption, Two-Earner Couple With Two Children, by Family Earnings, 1985

Family Earnings	Tax Savings
$10,000 or less	$ 0
15,000	356
20,000	378
30,000	407
40,000	469
50,000	525
70,000	601
80,000	630

The statistics prove that the well-off reap the lion's share of the rewards from the children's tax exemption, while low and moderate-income families get the least. Table 13 shows that taxfilers at the lower end of the income scale (under $10,000 for the 1982 tax year) represented 14.0 percent of all child tax exemption claimants but ended up with only 5.7 percent of total tax savings from the exemption; their average benefit was $172. Taxfilers in the next income group ($10,000 to $20,000) did somewhat better; they still accounted for a smaller proportion of tax savings (22.2 percent) than of claimants (25.6 percent), but their average benefit from the child tax exemption ($368) was more than twice that of the under - $10,000 group. Taxfilers in the $20,000 to $30,000 group represented 29.3 percent of all child tax exemption claimants and received about the same share (29.9 percent) of benefits from the program; their average tax savings was $434. The top three income groups shown in Table 13 received a larger proportion of benefits than their share of all claimants.

The last column on Table 13 shows what we term an 'inequality index'. This is a simple measure which divides each income group's share of tax savings (the figures in the third column) by its share of all child tax exemption claimants (shown in the fourth column). If the income group's share of tax savings equals its proportion of all claimants, the index will be 1.0 indicating a state of equality. An index figure less than 1.0 means that the income group gets less than its fair share of benefits, while an index result more than 1.0 shows that taxfilers in the income group enjoy a disproportionate share of tax savings from the child tax exemption.

The inequality index is lowest (0.41) for child tax credit claimants in the lowest income group and is 0.87 for those in the next-lowest group ($10,000 to $20,000), indicating that they get a disproportionately low share of benefits. Taxfilers in the $20,000 to $30,000 range have an index of 1.02, so their share of benefits is close to their share of claimants. However the inequality index increases progressively for the next three income groups, illustrating their disproportionately high share of tax savings from the child tax exemption.

Table 13

Distribution of Child Tax Exemption Claimants and Benefits, 1982 Taxation Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$172	5.7%	14.0%	0.41
10,000 - 20,000	368	22.2	25.6	0.87
20,000 - 30,000	434	29.9	29.3	1.02
30,000 - 40,000	514	21.7	18.0	1.21
40,000 - 50,000	638	10.5	7.0	1.50
50,000 and over	711	10.2	6.2	1.65
Total	426	100.0	100.0	

The Roller Coaster Result: Total Child Benefits

Table 14 summarizes the key characteristics of the three federal programs for families with children. The family allowance is the most expensive, benefits all households with children (i.e., it is universal), and helps low-income families most and the rich the least (i.e., it is progressive). The child tax credit is selective in favour of low and middle-income families (it excludes the affluent) and has a progressive impact. The children's tax exemption makes no sense as a social program: It excludes the poorest families with children and delivers its greatest benefit to those with high incomes.

Table 14

Federal Child Benefits, Costs and Characteristics, 1985

Program	Cost ($billions)	Number of Families (millions)	Eligibility	Distribution of Benefits
family allowances	$1.810	3.6	universal	progressive
child tax credit	1.425	2.5	selective (excludes affluent)	progressive
child tax exemption	1.175	3.0	selective (excludes poor)	regressive
total child benefits	4.410			

The sum total of the three child benefit programs also makes little sense as social policy. The progressive impact of family allowances and the refundable child tax credit is offset by the regressive effect of the children's tax exemption.

Table 15 illustrates the illogical distribution of benefits that results when the three programs are added together. Like the preceding examples, Table 15 illustrates the pattern of benefits for a two-earner couple with two children. The relationship of benefits to earnings can best be described as a roller coaster.

Table 15

Child Benefits, Two-Earner Couple with Two Children, by Family Earnings, 1985

Family Earnings	Net Family Allowances	Child Tax Credit	Child Tax Exemption	Total Child Benefits
$10,000 or less	$750	$734	$ 0	$1,484
15,000	560	734	356	1,650
20,000	550	734	378	1,662
25,000	539	734	399	1,672
30,000	539	734	407	1,680
33,000*	528	734	420	1,682
40,000	528	414	469	1,411
50,000	482	0	525	1,007
60,000	472	0	525	997
70,000	472	0	601	1,073
80,000 or more	417	0	630	1,047

* earnings plus child benefits approximate median income for family with two children ($35,000).

In 1985, the poorest families (those with earnings below $10,000) receive $1,484 - $750 in family allowances, $734 from the child tax credit, and nothing from the children's tax exemption. Total benefits increase to $1,650 for a family with $15,000 in earnings because it benefits somewhat from the children's tax exemption and also receives the family allowance and maximum child tax credit. Total child benefits climb until earnings reach $33,000, where payments from the three programs amount to $1,682; earnings plus child benefits come to $34,682, close to the estimated median income of $35,000 for a family with two children. Benefits then descend steadily until they bottom out at $997 for families earning $60,000. Total child benefits then rise again to $1,073 for a $70,000 family and dip to $1,047 for those with $80,000 or more.

Although the erratic distribution of federal child benefits is hard to rationalize, it is not difficult to explain. The poorest families receive two child benefits - family allowances and the child tax credit - at the maximum rate; they do not profit from the children's tax exemption because their incomes are so low they are not taxed. The majority of families are eligible for all three family benefits. While the amount they get from each program is determined by their level of income - net family allowances and the child tax credit decrease as incomes increase, while the children's tax exemption works the opposite way - the three benefits do not vary with income in the same direction or at the same rate, which means that the relationship between total benefits and earnings does not result in a smooth, regular curve.

For example, a family earning $15,000 (more than $5,800 below the poverty line) receives $560 in net family allowances, $734 from the child tax credit and $356 from the children's tax exemption, for a total benefit of $1,650 in 1985. A family earning $25,000 - $10,000 more than the first family - ends up with a **higher** total benefit; it receives a lower net family allowance ($539) and the same child tax credit ($734), but it benefits more from the children's tax exemption ($399 as opposed to $356), producing a total child benefit of $1,672 - $22 more than the poor family.

In our example, families earning $50,000 or more do not qualify for the child tax credit. Their major benefit is the children's tax exemption, which is substantially more lucrative than their net family allowance; the children's tax exemption makes up 60 percent of the total child benefit for families earning $80,000 or more. Bizarrely, however, families above $80,000 actually get more than those with $60,000; the more affluent group's lower net family allowances are more than compensated for by its higher tax savings from the children's tax exemption.

The distribution of federal child benefits is more than peculiar: It is very inequitable. Benefits are not geared to financial need, to the detriment of low-income families with children.

An Ontario couple with two children and one earner paid $5 an hour ($1 more than the provincial minimum wage) receives a total child benefit of $1,484 in 1985 - $750 in family allowances and $734 from the child tax credit, though it is too poor to benefit from the children's tax exemption - bringing its total income to $11,234. While the family in question falls $9,587 below the estimated poverty line for a family of four in Toronto, the family allowance and child tax credit provide a sorely-needed supplement that reduces the poverty gap by almost $1,500. Yet a family with earnings at the level of the average industrial wage (about $23,700 in 1985) ends up with a total child benefit of $1,682 - $198 **more** than the poor family.

Few would question the second family's need for financial assistance in raising its children; after all, its total income of $25,382 is substantially below average family income (an estimated $38,000 for a family with two children in 1985). But why should its child benefit be higher than that given to the poor family? More important still from the viewpoint of sensible social policy, why should a well-off family at $80,000 - eight times the earnings of the low wage family - be allowed a $1,047 benefit which is only $437 less than the $1,484 given the poor family? Federal family benefits are essential to the low-income family's well-being: The affluent family's subsidy of more than $1,000 patently is not.

APPENDIX C

OTHER FEDERAL CHILD BENEFITS

Equivalent to Married Exemption

There is another tax-delivered benefit that is often ignored in the debate over social programs for families with children. Known as the 'equivalent to married exemption', this tax expenditure benefits single parents.

Taxfilers who are single, divorced, separated or widowed can deduct $3,630 from their taxable income for a live-in relative whom they wholly support. A single parent can reduce her or his taxable income by $3,630 for a dependent child, whereas a married parent can only claim the $710 child tax exemption. For a second and each additional child, however, single parents deduct the same $710 as couples, so the equivalent to married exemption applies only to one child. (These figures are for the 1985 taxation year).

In effect, then, the equivalent to married exemption provides a larger-than-normal ($3,630 as opposed to $710) child exemption for single parents. While single parents as a group have below-average incomes and above-average rates of poverty, and so need all the government support they can get, the equivalent to married exemption does not deliver its benefit in a rational manner.

Table 16 gives the tax savings that result from the equivalent to married exemption for a single parent with one child.[14] Like the child tax exemption, the equivalent to married exemption is a **regressive** program that pays the largest benefits to those who least need them and gives no help to the poorest single parents.

Table 16

Equivalent to Married Exemption, Single Parent With One Child, By Earnings, 1985

Earnings	Tax Savings
$ 0	$ 0
8,000	516
10,000	516
15,000	962
20,000	1,021
25,000	1,074
30,000	1,236
40,000	1,343
50,000	1,612
80,000	1,827

Single parents, most of whom are women, have incomes that are substantially below average. Preliminary estimates for 1983 show that families headed by women averaged $19,034 - about half the average income of male-headed families. More than half of female-led families had incomes below $15,000 in 1983, and only 8 percent had incomes over $40,000 (compared to 35 percent of families headed by men).[15]

As a result, very few single parents enjoy the large tax savings shown at the bottom of Table 16, so it is unlikely that a large portion of the equivalent to married exemption's benefits goes to affluent taxfilers. On the other hand, a sizable number of single parents get little or nothing from the equivalent to married exemption because their taxable incomes are low or nil. Yet these are the very parents who most need government financial assistance in raising their children.

Child Care Deduction

A single parent or the spouse with the lower income in a two-earner couple can deduct from taxable income up to $2,000 per child to a family maximum of $8,000 for child care expenses incurred in earning an income. The amount claimed cannot exceed two-thirds of the taxfiler's earned income for the taxation year.

Table 17 shows the value (in tax savings) of the child care deduction for a single parent with one child.[14] Again, those with the highest earnings reap the greatest rewards, which means that the child care deduction is a **regressive** program.

Table 17

Child Care Deduction, Single Parent With One Child, by Earnings, 1985

Earnings	Tax Savings
$ 0	$ 0
8,000	0
10,000	48
15,000	522
20,000	562
25,000	592
30,000	681
40,000	740
50,000	888
80,000	1,006

APPENDIX D

CHILD BENEFIT COSTS

Table 18 gives the cost of the three major child benefit programs for 1985.

Table 18

Child Benefit Costs, 1985

Program	Cost ($ million)
Family Allowance	
payments	$ 2,450
federal tax revenue	460
provincial tax revenue	180
net cost	**1,810**
Child tax credit	**1,425**
Child tax exemption	
federal tax loss	845
provincial tax loss	330
total tax loss	**1,175**
Total net cost	**$ 4,410**

Ottawa will pay out an estimated $2.45 billion in family allowance cheques in 1985. Revenue Canada will recover about $460 million in federal income taxes paid on family allowances, so the net (after-tax) cost of the program to the federal government is $1.99 billion. The provincial governments

also tax family allowances to the tune of about $180 million for the 1985 taxation year (the exception is Quebec, which does not tax family allowances). Therefore the total net cost of the family allowance (i.e., payouts less federal and provincial income taxes paid on them) is $1.81 billion in 1985.

The child tax credit will cost the federal government $1.425 billion for the 1985 taxation year. The child tax exemption will cost Ottawa $845 million in foregone tax revenue and the provinces $330 million, for a total cost of $1.175 billion.

The after-tax cost of the three child benefits is $4.41 billion in 1985. The federal government's share comes to $4.26 billion or 97 percent of the total bill.

Table 19 offers a long-term perspective on the family allowances program. Expenditures went from $309.5 million in 1960 to $2,360 million in 1984, the number of families from 1.9 million to 3.6 million, and the number of children for whom allowances are paid from 4.3 million at mid-century to 6.6 million today. However the program costs considerably less today than in 1960 in relation to such leading economic indicators as the Gross National Product, total personal income and federal government spending.

Expenditures increased significantly in 1973 and 1974 because benefits were raised substantially and extended to 16 and 17 year-olds. Benefits also were indexed annually to the cost of living starting in 1974. However indexation was suspended temporarily for 1976; coupled with a decline in the number of children for whom family allowances were paid, the result was a decline in expenditures from 1975 to 1976. Costs also dipped substantially in 1979 when monthly benefits were reduced to help pay for the new child tax credit.

Table 19

Family Allowances, 1950-1984

	Expenditures ($ millions)	as percentage of GNP	Personal Income	Federal Spending	Families	Children	Children per family
1950	$ 309.5	1.7%	2.2%	13.5%	1,885,000	4,294,500	2.28
1955	382.5	1.3	1.8	8.2	2,233,100	5,282,700	2.37
1960	506.2	1.3	1.7	8.0	2,850,700	6,317,800	2.22
1965	551.7	1.0	1.3	6.7	2,766,800	6,843,700	2.47
1970	557.5	0.7	0.8	3.8	3,001,400	6,844,200	2.28
1971	556.6	0.6	0.8	3.3	3,037,621	6,815,465	2.24
1972	550.2	0.5	0.7	2.8	3,074,538	6,776,513	2.20
1973	645.3	0.5	0.7	3.0	3,117,528	6,723,738	2.16
1974	1,769.1	1.2	1.5	6.7	3,380,696	7,291,576	2.16
1975	1,960.6	1.2	1.4	5.7	3,460,689	7,327,661	2.12
1976	1,943.8	1.0	1.3	5.2	3,525,179	7,292,016	2.07
1977	2,086.1	1.0	1.2	4.9	3,571,233	7,211,716	2.02
1978	2,226.2	1.0	1.2	4.7	3,598,146	7,097,845	1.97
1979	1,697.6	0.6	0.8	3.3	3,616,149	6,978,878	1.93
1980	1,813.6	0.6	0.7	3.0	3,632,520	6,880,195	1.89
1981	1,958.6	0.6	0.7	2.8	3,639,554	6,786,455	1.86
1982	2,206.0	0.6	0.7	2.6	3,641,143	6,711,223	1.84
1983	2,305.5	0.6	0.7	2.5	3,638,553	6,651,624	1.83
1984	2,360.0	0.6	0.7	2.4	3,635,900	6,611,600	1.82

In 1950, family allowance payments represented 1.7 percent of the Gross National Product, 2.2 percent of personal income and a sizable 13.5 percent of federal spending. By 1984, these figures had declined to 0.6 percent, 0.7 percent and 2.4 percent, respectively. An important factor behind this decline is the decrease in family size and the number of children under 18. The number of children per family receiving family allowances declined steadily from 2.47 in 1965 to 1.82 in 1984. The number of children on whose behalf benefits are paid has decreased each year since 1975.

Table 20 compares expenditures from 1974 to 1982 for the three federal programs. The family allowance figures indicate payments and do not take into account federal and provincial income taxes paid on benefits. The child tax exemption figures are estimates by the National Council of Welfare and show federal tax losses only.[16]

Child tax exemption costs increased by 64 percent from 1974 to 1982 compared to only 25 percent for family allowances. The child tax credit was introduced for the 1978 taxation year and increased its expenditures by 73 percent from 1978 to 1982. By comparison, the children's tax exemption cost the federal government 30 percent more in 1982 than in 1978, while family allowance expenditures actually were less in 1982 than in 1978.

Table 20

Federal Child Benefit Expenditures, 1974-1982

($ millions)

	Family Allowances	Child Tax Credit	Child Tax Exemption	Total Child Benefits
1974	$ 1,769.1		$ 619.2	$ 2,388.3
1975	1,960.6		666.1	2,626.7
1976	1,943.8		470.6	2,684.4
1977	2,086.1		668.3	2,754.4
1978	2,226.2	874.4	784.3	3,884.9
1979	1,697.6	933.2	802.3	3,433.1
1980	1,813.6	1,013.2	833.2	3,660.0
1981	1,958.6	1,069.0	903.2	3,930.8
1982	2,206.0	1,513.5	1,016.5	4,763.7
Percentage Increase				
1974-1982	24.7%	-	64.2%	99.5%
1978-1982	-0.9	73.1	29.6	22.6

APPENDIX E

TAX EXPENDITURES

'Tax expenditures' is the term used for deductions and exemptions, credits, preferential tax rates, deferrals of tax and tax reductions which reduce the amount of taxes owed by individuals and corporations. With few exceptions these tax breaks benefit high-income taxpayers most, middle-income taxpayers less, and low-income Canadians least.

The following tables show who gets what from several of the better-known tax expenditures in the personal income tax system. Since the federal government does not release up-to-date and comprehensive information on tax expenditures, the figures in the following tables were produced by the National Council of Welfare using our own methodology and preliminary statistics for the 1982 taxation year.[16]

Each table divides taxfilers into six income groups ($10,000 and under; $10,000 to $20,000; $20,000 to $30,000; $30,000 to $40,000; $40,000 to $50,000, and $50,000 and above). The first column shows the average benefit (in the form of federal and provincial tax savings) for persons in each income group who claimed the exemption or deduction. The second column gives the income group's share of total tax savings from the tax expenditure, while the third column shows the income group's percentage of all taxfilers who claim the particular tax expenditure.

The 'inequality index' divides each income group's share of benefits by its share of claimants. If the result is less than 1.0, the income group gets less than its fair share of benefits, in the sense that its share of tax savings is smaller than its share of claimants. An inequality index of more than 1.0 indicates that taxfilers in a particular income group enjoy a larger

share of benefits than their proportion of taxfilers claiming the tax exemption or deduction.

The figures vary from table to table, but two patterns emerge clearly. In every case, the higher the taxfilers' income group, the higher their benefit from the tax expenditure. In every case, taxfilers in the lowest income group get a disproportionately small share of benefits, as evidenced by an inequality index of less than 1.0.

Table 21

Distribution of Child Tax Exemption Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$172	5.7%	14.0%	0.41
10,000 - 20,000	368	22.2	25.6	0.87
20,000 - 30,000	434	29.9	29.3	1.02
30,000 - 40,000	514	21.7	18.0	1.21
40,000 - 50,000	638	10.5	7.0	1.50
50,000 and over	711	10.2	6.2	1.65
Total	426	100.0	100.0	

Table 22

Distribution of Child Care Expenses Deduction Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 170	11.8%	22.1%	0.53
10,000 - 20,000	288	44.3	46.1	0.96
20,000 - 30,000	375	27.6	22.1	1.25
30,000 - 40,000	484	10.8	6.7	1.61
40,000 - 50,000	540	3.4	1.9	1.79
50,000 and over	572	2.1	1.1	1.91
Total	300	100.0	100.0	

Note

A single parent or the spouse with the lower income in a couple can deduct from taxable income up to $2,000 per child to a family maximum of $8,000 for child care expenses incurred to allow the taxfiler to work or take a training course.

Table 23

Distribution of Married or Equivalent Exemption, Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 422	8.7%	16.8%	0.52
10,000 - 20,000	736	26.4	29.2	0.90
20,000 - 30,000	876	29.1	27.0	1.08
30,000 - 40,000	995	19.2	15.7	1.22
40,000 - 50,000	1,174	9.0	6.3	1.43
50,000 and over	1,215	7.5	5.0	1.50
Total	814	100.0	100.0	

Note

For the 1985 tax year a taxfiler can exempt from taxation $3,630 in respect of a spouse he or she supports and whose own income is less than $510. A single, divorced, separated or widowed taxfiler can claim the same tax exemption in respect of a live-in dependent relative (including one child).

Table 24

Distribution of Age Exemption
Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 398	30.9%	42.4%	0.73
10,000 - 20,000	561	36.4	35.5	1.03
20,000 - 30,000	713	15.6	12.0	1.30
30,000 - 40,000	821	7.0	4.7	1.49
40,000 - 50,000	986	3.7	2.1	1.76
50,000 and over	1,048	6.4	3.3	1.94
Total	548	100.0	100.0	

Note

Taxfilers aged 65 or older can exempt from taxation $2,590 for the 1985 taxation year.

Table 25

Distribution of Pension Income Deduction Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 193	16.6%	23.5%	0.71
10,000 - 20,000	263	40.3	42.1	0.96
20,000 - 30,000	306	21.0	18.8	1.12
30,000 - 40,000	355	10.4	8.1	1.28
40,000 - 50,000	424	5.4	3.6	1.50
50,000 and over	439	6.3	3.9	1.62
Total	275	100.0	100.0	

Note

A taxfiler can deduct from taxable income up to $1,000 in income received from a private pension plan or registered retirement savings plan.

Table 26

Distribution of Deduction for Interest Income, Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 95	14.1%	27.4%	0.51
10,000 - 20,000	177	28.2	29.7	0.95
20,000 - 30,000	205	24.1	21.9	1.10
30,000 - 40,000	246	15.4	11.6	1.33
40,000 - 50,000	329	8.3	4.7	1.77
50,000 and over	393	9.9	4.7	2.11
Total	186	100.0	100.0	

Note

A taxfiler can deduct from taxable income up to $1,000 in income earned on savings and investments, including dividends from Canadians corporations.

Table 27

Distribution of Deduction for Unemployment Insurance Premiums, Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 13	6.0%	28.5%	0.21
10,000 - 20,000	55	29.0	31.9	0.91
20,000 - 30,000	89	33.4	22.8	1.46
30,000 - 40,000	106	18.6	10.6	1.75
40,000 - 50,000	128	7.7	3.7	2.08
50,000 and over	129	5.3	2.5	2.12
Total	61	100.0	100.0	

Note

Employees pay 2.35 percent of their insurable earnings up to a maximum of $562.12 in 1985. They can deduct this amount from their taxable income.

Table 28

Distribution of Deduction for Canada and Quebec Pension Plan Contributions, Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 15	5.9%	25.1%	0.24
10,000 - 20,000	58	30.1	33.2	0.91
20,000 - 30,000	87	31.7	23.3	1.36
30,000 - 40,000	101	17.3	11.0	1.57
40,000 - 50,000	122	7.6	4.0	1.90
50,000 and over	139	7.4	3.4	2.18
Total	64	100.0	100.0	

Note

Employees contribute 1.8 percent of their earnings between $2,300 and $23,400 to the Canada or Quebec Pension Plan; the self-employed pay 3.6 percent of this amount in 1985. Taxfilers can deduct the amount of their C/QPP contributions from their taxable income.

Table 29

Distribution of Deduction for Registered Pension Plan Contributions, Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 56	0.5%	3.9%	0.13
10,000 - 20,000	170	11.1	26.8	0.41
20,000 - 30,000	346	30.9	36.5	0.85
30,000 - 40,000	563	28.4	20.6	1.38
40,000 - 50,000	885	16.4	7.6	2.16
50,000 and over	1,135	12.7	4.6	2.76
Total	409	100.0	100.0	

Note

A taxfiler can deduct from taxable income up to $3,500 in respect of contributions to a private pension plan.

Table 30

Distribution of Deduction for Registered Retirement Savings Plan Contributions, Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$173	1.0%	4.3%	0.23
10,000 - 20,000	393	11.5	22.1	0.52
20,000 - 30,000	614	24.9	30.7	0.81
30,000 - 40,000	811	22.8	21.2	1.08
40,000 - 50,000	1,060	15.1	10.7	1.41
50,000 and over	1,690	24.7	11.0	2.25
Total	755	100.0	100.0	

Note

An employee who belongs to a private plan but who has contributed less than $3,500 can put some or all of the difference into an RRSP and claim this amount as an additional deduction. The part of the difference that can be sheltered from tax is limited by a person's earnings: RRSP contributions added to contributions to a private pension plan cannot exceed $3,500 or 20 percent of earned income. Persons who do not belong to a private pension plan - including the self-employed - may contribute a full 20 percent of their earnings to an RRSP up to an annual limit of $5,500 and claim this amount as a tax deduction.

Table 31

Distribution of Deduction for Registered Home Ownership Savings Plan Contributions, Claimants and Benefits, 1982 Tax Year

Income Group	Average Benefit	Share of Benefits	Share of Claimants	Inequality Index
Under $10,000	$ 182	5.5%	9.2%	0.60
10,000 - 20,000	267	30.1	34.1	0.88
20,000 - 30,000	316	36.9	35.3	1.05
30,000 - 40,000	363	17.3	14.4	1.20
40,000 - 50,000	437	6.0	4.2	1.43
50,000 and over	456	4.2	2.8	1.50
Total	303	100.0	100.0	

Note

A taxfiler can deduct from taxable income up to $1,000 in contributions to an RHOSP.

APPENDIX F

A COMPARISON OF REFORM OPTIONS

The Consultation Paper offers two illustrative options for the reform of child benefits. These are not government proposals, but only two examples among several possible designs which could change the existing system. We compare these options with the current child benefits system and with our own approach.

The following table summarizes the current programs and three options for reform. Options A and B are presented in the Consultation Paper, while Option C is the National Council of Welfare's proposal. We show total benefits per child for 1985 from each program. The 'turnover point' is the level of net family income above which the child tax credit is reduced by 5 cents for every dollar.

Table 32

Child Benefits Per Child, by Option, 1985

	Family Allowance	Child Tax Credit	Turnover Point	Child Tax Exemption
Current System	$375	$367	$26,330	$710
Option A	375	595	20,500	0
Option B	240	610	25,000	240
Option C	375	595	27,000	0

Tables 33 through 35 show benefits from each program as well as total child benefits for the current system and the three options. Table 33 looks at two-earner couples with two children, Table 34 one-earner couples with two children, and Table 35 single parents with two children.

Two-Earner Couples (Table 33)

Table 33 is based on the results of Tables 33a through 33d.[2] Table 33a shows child benefits from the family allowance, child tax credit and child tax exemption, as well as their sum, for families with different earnings (note that we show **gross** earnings, not net family income as used by the child tax credit). Table 33b does the same thing for Option A, Table 33c for Option B and Table 33d for Option C.

Option A substantially improves child benefits for lower-income families; the poorest get $456 more than from the current system. However losses begin at below-average income levels; a family earning $29,000 would lose $41 if Option A were in effect. This family's income from earnings and child benefits ($30,631) is $4,369 below the estimated median income for a family with two children in 1985.

Option B provides smaller increases to lower-income families than does Option A, but protects middle-income families from loss of child benefits. A family with combined spouses' earnings of $33,000 would receive $1,645 in child benefits under Option B, bringing its total income to $34,645, or about the level of the estimated median income ($35,000) for a family with two children. Such a family would get marginally less ($37) than from the current system; significant losses only affect families above $40,000.

Option C combines the advantages of the other options. It provides the same significant boost in child benefits for lower-income families as Option A, but also protects middle-income families, like Option B. Families with average incomes would get about what they do now; losses would begin at $40,000 and would rise with increasing income. (Keep in mind that we assume the family claims the maximum child care expenses deduction of $4,000; if it does not, then losses would begin below $40,000 under Option C because many middle-income families would get a smaller child tax credit since their net family earnings would be $4,000 higher, resulting in a larger reduction in their child tax credit).

Table 33

Child Benefits, Two-Earner Couple With Two Children, by Earnings and Option, 1985

Family Earnings	Currrent System	Option A Amount	Option A Change	Option B Amount	Option B Change	Option C Amount	Option C Change
$ 0	$1,484	$1,940	$ 456	$1,700	$ 216	$1,940	$ 456
10,000	1,484	1,883	399	1,700	216	1,883	399
15,000	1,650	1,751	101	1,700	50	1,751	101
20,000	1,662	1,740	78	1,700	38	1,740	78
25,000	1,672	1,729	57	1,700	28	1,729	57
30,000	1,680	1,575	-105	1,700	20	1,721	41
33,000*	1,682	1,438	-244	1,645	- 37	1,718	36
40,000	1,411	1,074	-337	1,324	- 87	1,399	- 12
50,000	1,007	579	-428	842	-165	904	-103
60,000	997	472	-525	480	-517	472	-525
80,000	1,047	417	-630	480	-567	417	-630

* Earnings plus child benefits approximate median income for family with two children (estimated $35,000).

Table 33a

Child Benefits, Two-Earner Couple With
Two Children, by Earnings, Current System, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Child Tax Exemption	Total Child Benefits
$ 0	$ 750	$ 734	$ 0	$ 1,484
10,000	750	734	0	1,484
15,000	560	734	356	1,650
20,000	550	734	378	1,662
25,000	539	734	399	1,672
30,000	539	734	407	1,680
33,000	528	734	420	1,682
40,000	528	414	469	1,411
50,000	482	0	525	1,007
60,000	472	0	525	997
80,000	417	0	630	1,047

Table 33b

Child Benefits, Two-Earner Couple With Two Children, by Earnings, Option A, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Total Child Benefits
$ 0	$ 750	$ 1,190	$ 1,940
10,000	693	1,190	1,883
15,000	561	1,190	1,751
20,000	550	1,190	1,740
25,000	539	1,190	1,729
30,000	531	1,044	1,575
33,000	528	910	1,438
40,000	495	579	1,074
50,000	472	107	579
60,000	472	0	472
80,000	417	0	417

Table 33c

Child Benefits, Two-Earner Couple With Two Children, by Earnings, Option B, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Child Tax Exemption	Total Child Benefits
$ 0	$ 480	$ 1,220	$ 0	$ 1,700
10,000	480	1,220	0	1,700
15,000	360	1,220	120	1,700
20,000	352	1,220	128	1,700
25,000	345	1,220	135	1,700
30,000	345	1,220	135	1,700
33,000	338	1,165	142	1,645
40,000	327	834	163	1,324
50,000	302	362	178	842
60,000	302	0	178	480
80,000	267	0	213	480

Table 33d

Child Benefits, Two-Earner Couple With Two Children, by Earnings, Option C, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Total Child Benefits
$ 0	$ 750	$ 1,190	$ 1,940
10,000	693	1,190	1,883
15,000	561	1,190	1,751
20,000	550	1,190	1,740
25,000	539	1,190	1,729
30,000	531	1,190	1,721
33,000	528	1,190	1,718
40,000	495	904	1,399
50,000	472	432	904
60,000	472	0	472
80,000	417	0	417

One-Earner Couples (Table 34)

The same assumptions apply as for Table 33, except that the family has only one earner who claims a married exemption (because his or her spouse does not have an income) but not a child care expenses deduction (because we assume the other spouse provides child care).

Option A puts the poorest families with two children $456 ahead. However losses begin for families earning $23,000; adding in child benefits available from Option A, their total income is only $24,667 - $10,333 below the estimated median income of $35,000 for a family with two children and, in fact, only $1,197 above the low-income line for a family of four living in a city the size of Montreal, Toronto or Vancouver.

Option B gives poor families less than Option A but is not as hard on middle-income families. Losses begin at $27,000; earnings plus child benefits total $28,685 - still a substantial amount ($6,315) below the 1985 median income of $35,000 for a family with two children. A family at the mid-point of the income range ($33,000 in earnings plus $1,394 in child benefits for a total of $34,394, close to the $35,000 mark) would lose $115 a year under Option B.

Option C is clearly superior to the other two options. Low-income families enjoy a sizable increase in child benefits. A family with median income ($33,000 in earnings plus $1,456 in child benefits, for a total income of $34,456) gets almost as much as under the current system (just $53 less), and those in the lower-middle income range ($20,000 - $30,000) are fully protected. Only upper-income families ($50,000 and over) experience substantial losses.

Table 34

Child Benefits, One-Earner Couple With Two Children, by Earnings and Option, 1985

Family Earnings	Currrent System	Option A Amount	Option A Change	Option B Amount	Option B Change	Option C Amount	Option C Change
$ 0	$1,484	$1,940	$ 456	$1,700	$ 216	$1,940	$ 456
10,000	1,492	1,932	440	1,700	208	1,932	440
15,000	1,670	1,740	70	1,700	30	1,740	70
20,000	1,673	1,729	56	1,700	27	1,729	56
25,000	1,682	1,572	-110	1,700	18	1,718	36
30,000	1,618	1,299	-319	1,539	- 79	1,624	6
33,000*	1,509	1,131	-378	1,394	-115	1,456	- 53
40,000	1,156	796	-360	1,059	- 97	1,121	- 35
50,000	1,047	417	-630	579	-468	586	-461
60,000	1,047	417	-630	480	-567	417	-630
80,000	1,088	373	-715	480	-608	373	-715

* Earnings plus child benefits approximate median income for family with two children (estimated $35,000).

Table 34a

Child Benefits, One-Earner Couple With Two Children, by Earnings, Current System, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Child Tax Exemption	Total Child Benefits
$ 0	$ 750	$ 734	$ 0	$ 1,484
10,000	750	734	8	1,492
15,000	558	734	378	1,670
20,000	539	734	400	1,673
25,000	528	734	420	1,682
30,000	495	639	484	1,618
33,000	495	494	520	1,509
40,000	472	159	525	1,156
50,000	417	0	630	1,047
60,000	417	0	630	1,047
80,000	373	0	715	1,088

Table 34b

Child Benefits, One-Earner Couple With Two Children, by Earnings, Option A, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Total Child Benefits
$ 0	$ 750	$ 1,190	$ 1,940
10,000	742	1,190	1,932
15,000	550	1,190	1,740
20,000	539	1,190	1,729
25,000	528	1,044	1,572
30,000	495	804	1,299
33,000	472	659	1,131
40,000	472	324	796
50,000	417	0	417
60,000	417	0	417
80,000	373	0	373

Table 34c

Child Benefits, One-Earner Couple With Two Children, by Earnings, Option B, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Child Tax Exemption	Total Child Benefits
$ 0	$ 480	$ 1,220	$ 0	$ 1,700
10,000	480	1,220	0	1,700
15,000	352	1,220	128	1,700
20,000	345	1,220	135	1,700
25,000	338	1,220	142	1,700
30,000	317	1,059	163	1,539
33,000	302	914	178	1,394
40,000	302	579	178	1,059
50,000	267	99	213	579
60,000	267	0	213	480
80,000	238	0	242	480

Table 34d

Child Benefits, One-Earner Couple With Two Children, by Earnings, Option C, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Total Child Benefits
$ 0	$ 750	$ 1,190	$ 1,940
10,000	742	1,190	1,932
15,000	550	1,190	1,740
20,000	539	1,190	1,729
25,000	528	1,190	1,718
30,000	495	1,129	1,624
33,000	472	984	1,456
40,000	472	649	1,121
50,000	417	169	586
60,000	417	0	417
80,000	373	0	373

Single Parent Families (Table 35)

The general picture is the same for one-parent families as for couples with children. Options A and C offer a larger increase in child benefits for low-income families than does Option B. The earnings level at which families begin to lose benefits is lowest under Option A, higher under Option B and highest under Option C.

However losses begin at higher income levels for single parents than for couples, and well-off single parents experience significantly smaller losses than couples with the same income. Moreover none of the three options result in the same smoothly progressive distribution of child benefits as we saw for couples with children.

The reason for these differences is that one-parent families receive an additional child benefit - the equivalent to married exemption - that is not available to couples with children. As a result, most single parents receive more child benefits than couples, the amount increasing with increasing income. As Tables 35b and 35d clearly demonstrate, the equivalent to married exemption provides large benefits to upper-income one-parent families, less to those with middle incomes and nothing to the poorest.

Since Options A, B and C do not change the equivalent to married exemption, its regressive effect offsets the progressive impact of the options for reform. One possible solution to this problem would be to change the equivalent to married exemption to a refundable tax credit designed, like the child tax credit, to help low and modest-income families most.

Single parents have below-average incomes and most are women. The latest statistics, for 1982, show that single mothers had an average income of $17,143 - less than half the $35,157 for couples with children - and eight in ten were below $25,000. In other words, a larger proportion of one-parent families than of couples is on the lower rungs of the income ladder which receive the largest gains from the three options for reform. As a group, then, single parents stand to gain even more than couples from the reform of child benefits.

Table 35

Child Benefits, Single Parent With Two Children, by Earnings and Option, 1985

Family Earnings	Currrent System	Option A Amount	Option A Change	Option B Amount	Option B Change	Option C Amount	Option C Change
$ 0	$1,484	$1,940	$ 456	$1,700	$ 216	$1,940	$ 456
8,000	1,484	1,940	456	1,700	216	1,940	456
10,000	1,605	2,061	456	1,755	150	2,061	456
15,000	2,412	2,691	279	2,572	160	2,691	279
20,000	2,485	2,760	275	2,651	166	2,760	275
25,000	2,544	2,799	255	2,699	155	2,799	255
30,000	2,681	2,741	60	2,827	146	2,927	246
35,000	2,656	2,580	- 76	2,729	73	2,905	249
40,000	2,436	2,339	- 97	2,513	77	2,664	228
50,000	2,354	2,073	-281	2,284	- 70	2,398	44
60,000	2,344	2,029	-315	1,985	-359	2,029	-315
80,000	2,557	2,200	-357	2,185	-372	2,200	-357

Table 35a

Child Benefits, Single Parent With Two Children, by Earnings, Current System, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Child Tax Exemptions*	Total Child Benefits
$ 0	$ 750	$ 734	$ 0	$ 1,484
8,000	750	734	0	1,484
10,000	750	734	121	1,605
15,000	572	734	1,106	2,412
20,000	550	734	1,201	2,485
25,000	540	734	1,270	2,544
30,000	528	734	1,419	2,681
35,000	495	599	1,562	2,656
40,000	472	359	1,605	2,436
50,000	427	0	1,927	2,354
60,000	417	0	1,927	2,344
80,000	373	0	2,184	2,557

* equivalent to married and child tax exemptions

Table 35b

Child Benefits, Single Parent With Two Children, by Earnings, Option A, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Equivalent to Married	Total Child Benefits
$ 0	$ 750	$ 1,190	$ 0	$ 1,940
8,000	750	1,190	0	1,940
10,000	750	1,190	121	2,061
15,000	568	1,190	933	2,691
20,000	550	1,190	1,020	2,760
25,000	539	1,190	1,070	2,799
30,000	528	1,004	1,209	2,741
35,000	495	764	1,321	2,580
40,000	472	524	1,343	2,339
50,000	417	44	1,612	2,073
60,000	417	0	1,612	2,029
80,000	373	0	1,827	2,200

Table 35c

Child Benefits, Single Parent With Two Children, by Earnings, Option B, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Child Tax Exemptions	Total Child Benefits
$ 0	$ 480	$ 1,220	$ 0	$ 1,700
8,000	480	1,220	0	1,700
10,000	480	1,220	55	1,755
15,000	366	1,220	986	2,572
20,000	352	1,220	1,079	2,651
25,000	345	1,220	1,134	2,699
30,000	338	1,220	1,269	2,827
35,000	317	1,019	1,393	2,729
40,000	302	779	1,432	2,513
50,000	267	299	1,718	2,284
60,000	267	0	1,718	1,985
80,000	238	0	1,947	2,185

Table 35d

Child Benefits, Single Parent With
Two Children, by Earnings, Option C, 1985

Family Earnings	Net Family Allowance	Child Tax Credit	Equivalent to Married	Total Child Benefits
$ 0	$ 750	$ 1,190	$ 0	$ 1,940
8,000	750	1,190	0	1,940
10,000	750	1,190	121	2,061
15,000	568	1,190	933	2,691
20,000	550	1,190	1,020	2,760
25,000	539	1,190	1,070	2,799
30,000	528	1,190	1,209	2,927
35,000	495	1,089	1,321	2,905
40,000	472	849	1,343	2,664
50,000	417	369	1,612	2,398
60,000	417	0	1,612	2,029
80,000	373	0	1,827	2,200

FOOTNOTES

1. See in particular the following reports by the National Council of Welfare: The hidden Welfare System (November 1976), Bearing the Burden/Sharing the Benefits (March 1978), The Refundable Child Tax Credit (December 1978), The Hidden Welfare System Revisited (March 1979), Family Allowances for All? (March 1983), Sixty-Five and Older (February 1984), A Pension Primer (April 1984) and Pension Reform (May 1984).

2. One spouse earns 60 percent, the other spouse 40 percent, of family earnings. Each spouse deducts Canada Pension Plan contributions, unemployment insurance premiums and the personal exemption from taxable income. The higher earner also claims the child tax exemption and pays taxes on the family allowance, while the lower earner deducts the maximum child care expenses allowed ($4,000 for two children) from taxable income. Provincial taxes are at the Ontario rate (48 percent of basic federal tax).

3. Department of Finance Canada. Analysis of Federal Tax Expenditures for Individuals (Ottawa: November 1981), p.5.

4. National Council of Welfare. The Hidden Welfare System Revisited (Ottawa: March 1979).

5. Economic Council of Canada. Steering the Course: Twenty-First Annual Review (Ottawa: Minister of Supply and Services Canada, 1984), p. 28.

6. Report of the Auditor General of Canada to the House of Commons, 1983-1984 (Ottawa: Minister of Supply and Services Canada), p. 1-24.

7. 'Average benefit' means the average federal and provincial tax savings that result from the deductions from taxable income of RRSP contributions. Calculations are by the National Council of Welfare using preliminary data for the 1982 taxation year supplied by Revenue Canada.

8. Minister of National Health and Welfare. Child and Elderly Benefits Consultation Paper (Ottawa: January 1985), p. 11.

9. The National Council of Welfare estimates the 1985 low-income line for a family of four living in a city of 500,000 or more to be $20,821. See 1985 Poverty Lines (March 1985), Table 1.

10. The definition of net family income allows the following deductions: the $500 employment expense deduction; contributions to the Canada or Quebec Pension Plan, registered pension plans, RRSPs and RHOSPs; unemployment insurance premiums; union or professional dues; tuition fees; child care expenses; allowable business investment losses and allowable capital losses from an Indexed Security Investment Plan.

11. Child and Elderly Benefits Consultation Paper, p. 12.

12. Such a measure could be included as part of the next federal-provincial fiscal arrangements agreement for 1987.

13. Statistics Canada. Income Distributions by Size in Canada, 1982 (Ottawa: Minister of Supply and Services Canada, 1984) p. 167.

14. The following assumptions are used: the single parent deducts from taxable income CPP contributions, unemployment insurance premiums, the personal exemption, equivalent to married exemption and $2,000 in child care expenses. Provincial taxes are at the Ontario rate (48 percent of basic federal tax).

15. Statistics Canada. Income Distributions by Size in Canada: Preliminary Estimates, 1983 (Ottawa: Minister of Supply and Services Canada, 1984), p. 19.

16. Estimates for earlier years indicate that the National Council of Welfare's figures of tax expenditure costs are generally higher than those produced by the Department of Finance. We requested from the Minister of Finance's office up-to-date tax expenditure data, but had received no reply as we went to press.

    Our preliminary estimates of federal tax losses for the 1982 taxation year for tax expenditures shown in Appendix E are as follows: child tax exemption, $980 million; child care expenses deduction, $89 million; married or equivalent exemption, $1.5 billion; age exemption, $532 million; pension income deduction, $182 million; interest income deduction, $1 billion; unemployment insurance premiums deduction, $418 million (employee's share only); deduction for contributions to the Canada or Quebec Pension Plan, $460 million; deduction for contributions to registered pension plans, $936 million; deduction for RRSP contributions, $1.06 billion; deduction for RHOSP contributions, $110 million.

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